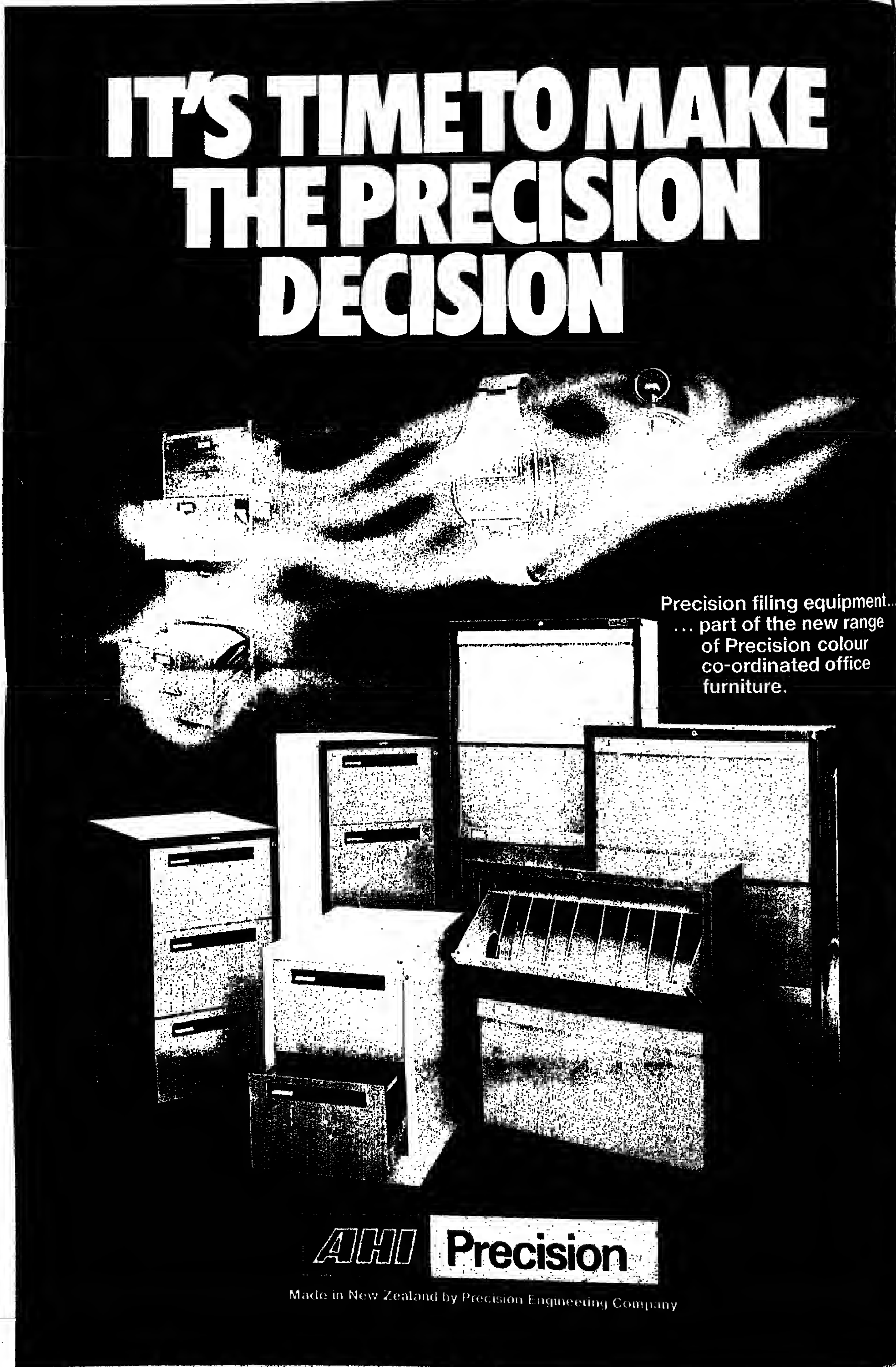

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NEW ZEALAND'S NATIONAL WEEKLY OF BUSINESS, POLITICS AND ECONOMICS

NATIONAL BUSINESS REVIEW

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75 cents

Inside

Synthetic carpet bid threat to Nafta markets

by Warren Berryman and Rae Mazengarb

PROCRASTINATION by Trade and Industry Minister Lance Adams-Schneider over Stevens-Bremner's proposal to export synthetic carpet threatens to wreck our $30 million-a-year carpet trade to Australia.

Australian carpet manufacturers have approached their Government with proposals for reprisals if Stevens-Bremner is allowed to export synthetic carpet to their market. They include:

- A ban on New Zealand synthetic carpets from their market;
- A duty on all New Zealand carpet;
- Abrogation of the Nafta agreement which gives our carpet manufacturers favoured duty-free access to their market.

Furthermore, the powerful Australian Industry Assistance Commission, in its draft report to the Australian Government, criticises the Nafta agreement on which our largest carpet export market is based.

The delay in reaching a decision on Stevens-Bremner's synthetic carpet exports has held up access for 400,000 square metres of Australian woollen carpet into this market and 400,000 square metres of New Zealand woollen carpet into the Australian market for two months.

Angry Australian carpet manufacturers are threatening to wreck the Nafta carpet agreement.

While the Australians are moving to counter any attempts in this country to send synthetic carpet across the Tasman, the ghost of a decision made in 1976 has returned to haunt Adams-Schneider.

In October 1976, he granted Stevens-Bremner the sole import licence to establish a $6 million carpet jet dying facility against advice from the carpet industry.

The Government-owned DFC provided Stevens-Bremner with finance for the Millitron.

Stevens-Bremner's competitors opposed the decision on the grounds the Millitron — based in Foxton, far from the major carpet-manufacturing centres — had the capacity to print all the carpet made in New Zealand.

But Stevens-Bremner had only 10 per cent of the local market and an even smaller slice of the Australian export market.

To make the plant pay, industry sources predicted, Stevens-Bremner would have to gain additional throughput by printing synthetic carpet by 1980.

Since 1976, industry sources have been saying there was no way the Millitron decision could have been based on sound, rational, business grounds.

Adams-Schneider's chickens are now coming home to roost.

Stevens-Bremner has suffered heavy losses since the Millitron purchase.

Recently, the company laid off 54 men from the Foxton plant.

NBR understands that Stevens-Bremner has gone to the DFC for a substantial sum in the form of "short-term assistance".

Other carpet manufacturers have been to see Adams-Schneider, trying to get him to ensure against exports of synthetic carpets to Australia.

It is understood the Government has sounded out some of Stevens-Bremners competitors to ascertain if they will "pick up the pieces" should Stevens-Bremner be prevented from exporting synthetic carpets and be forced out of business.

The Government has its reputation on the line and the Foxton area is in a marginal National seat.

One carpet executive last week claimed Adams-Schneider wanted to "wash his hands of the matter" and let the Aussies take the decision.

The Australians are likely to do just that.

Carpet Federation of Australia executive director John Hore summed up the Nafta carpet agreement as one-sided in New Zealand's favour.

His members, he said, were already concerned about New Zealand's generous export subsidies giving manufacturers an undue advantage in the Australian market.

New Zealand Carpet Manufacturers Association president Athole Murray is also concerned that any export of Stevens-Bremner synthetic carpet to Australia might wreck the Nafta agreement.

The Carpet Manufacturers Federation of Australia has been to its Government with proposed options that, if effected, would wreck New Zealand's largest carpet market.

The New Zealand Carpet Manufacturers Association has been to Adams-Schneider with its fears.

Adams-Schneider has responded with a letter saying: "I can assure you we are prepared to take whatever steps necessary to prevent New Zealand manufacturers commencing production of synthetic carpet."

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Millitron was a "proper decision"

THIS decision in 1976 to allow Stevens-Bremner to import the $6 million Millitron had been a "proper" one, Trade and Industry Minister Lance Adams-Schneider said last week.

But, he had "no details" of claims of Stevens-Bremner's offering samples of synthetic carpet to the Australians.

What did he think about industry suggestions that exports of synthetics to Australia would wreck the Nafta agreement?

Adams-Schneider said it was "too early yet to judge".

Was he suggesting to the DFC — as Minister of Trade and Industry — that it should provide Stevens-Bremner and the Wanganui-based Cavalier Carpet subsidiary with short term assistance?

He said he had had no discussions with the DFC on that subject.

He said he could not recall if he had asked the local carpet industry members if they would be willing to pick up the pieces if Stevens-Bremner went under.

Did he feel that, in light of the present events, the decision in 1976 to import the Millitron had been prudent?

Adams-Schneider said he believed the Government followed the right course in approving the new technology for the industry.

Stevens-Bremner had been granted the agency and the import licence, but one of the conditions had been that the other companies must have access to the Millitron.

And no further licences were to have been granted for a further two years.

Adams-Schneider said the major carpet firms had been invited to use the Millitron.

He knew it was not being fully utilised — and he had said at the time it wouldn't be if the other firms did not use the facility. But that decision was a matter for the individual firms.

Apart from leaving two clear years before the grant of further licences, the Government could not force the other companies to use the Millitron, Adams-Schneider said.

"My decision was not wrong," he said.

His "experts" had told him the Millitron was the leading machine in the world and that it would be desirable if the total industry used it.

On the other hand, there was no legislation whereby the Government could force other members of the industry to use the machine. The Government could not control a company's use of capital equipment, he said.

Adams-Schneider would not comment on the suggestions the Government might bail out Stevens-Bremner.

In view of Stevens-Bremner's, Fibremakers' and Mosgiel's problems, would the Government reconsider the implementation of the Industrial Development Council report on the textile industry? "Not at all," Adams-Schneider said.

It was a good report, he said. The industry was in need of refurbishing, and the Government had decided to implement the recommendations in the report.

The week

Shopping hours extended

THE long-drawn battle for extended shopping hours was won when the Government caucus gave its seal of approval for Saturday trading, allowing shop trading from 7am to 9pm. The Shop Employees' Union was distressed at the decision and said it would plan industrial action against it.

THE PROCEEDINGS of the Commission of Inquiry into the Arthur Allan Thomas case were disrupted when the counsel for the police walked out after a heated exchange of words with the commission chairman, Mr Justice Taylor. The judge had criticised what he believed was police ineptitude in their search of the Crewe property. The inquiry has been adjourned.

IMPORTED soya beans from the United States and Brazil will provide the fodder for an $8 million edible oil extraction plant to be built in Whangarei by Kaipara Edible Oils Ltd. The plant is expected to be operating in two years.

THE basic price of butter fat was increased by the Dairy Board to 218c a kilogram for the coming season, compared with the present price of 185c.

A $120 million pulp and paper mill in Northland is being planned by a consortium of New Zealand and Japanese firms, the second mill planned for the region in six weeks. NZ Forest Products Ltd intends to build a $150 million mill at Marsden Point.

THE COMMON Market's Agriculture Commissioner Finn Gunderlach is expected here next month for further talks on the EEC sheepmeat regime and on a butter quota for 1981.

A NATIONAL strike by South Africa's black workers to mark the fourth anniversary of Soweto was only partially successful, least of all in Johannesburg. But in Cape Town the protests of recent weeks sparked into full scale rioting, the death toll reaching 60 with at least 200 others injured, mainly by police bullets.

A PROPOSAL was made by Government backbencher Geoff Thomson to save Fibremakers' from collapsing by placing a 15 per cent tariff on imported yarn. The proposal was recommended by the Industries and Development Commission and will be investigated by the Government, although Prime Minister Rob Muldoon did not see it succeeding.

A NEW ZEALAND team consisting of six members — three canoeists, a modern pentathlonist and two members of the Olympic and Commonwealth Association — will go to the Moscow Olympic Games.

LAKER flights are getting closer to New Zealand — the British Government has okayed Skytrain flights between Britain and Hong Kong — giving Laker an opportunity to pursue "down under" flights in New Zealand's direction.

HOPES of a revived Wellington-Lyttelton ferry service sank when waterside workers made clear they wanted jobs on board, a move the Railways foresaw as spreading to Wellington and Picton ferry terminals. The service would have barely broken even, and probably run at a loss anyway, according to NZR.

ANOTHER "secret" trial began in Wellington High Court with two men facing joint criminal charges, but soon after a new trial was called for by Mr Justice Quilliam; the jury was discharged and a new one set up after one juror turned ill.

FRANCE exploded another nuclear device of approximately 20 kilotonnes at Mururoa Atoll near Tahiti.

A COPY of the controversial film "Death of a Princess" arrived in New Zealand. A decision on whether to screen the film here will be decided at the next meeting of the board of the Broadcasting Corporation on July 28.

A CALL for the creation of a Ministry of Employment to alleviate unemployment distress, came from the Mayor of Auckland and was endorsed by the Auckland Regional Authority.

AN Auckland publisher is facing tax claims for more than $1 million and is under investigation by a specialist undercover Tax Department squad which deals with difficult cases. George Papaconstantinou; a director of a company which formerly published *City Girl* magazine, has as his co-director Christopher Marty Johnstone (Mr Asia).

The business week

Aurora Group Ltd reported an audited tax-paid profit of $743,687 for the year to March 31 ($608,552 last year). A final dividend of 7½c is payable on July 17.

Bunting & Co Ltd reported an audited group profit after extraordinary items of $44,832 for the year to February 29 (A loss of $123,257 last year). A final dividend of 5 per cent is payable on July 29.

Endeavour Services Corporation Ltd reported an audited tax-paid profit of $2,369,239 for the year to March 31 ($2,112,963 last year). A final dividend of 6c is payable on August 11.

Marae Holdings Ltd reported an audited tax-paid profit of $1,118,000 for the year to March 31 ($991,000 last year).

Naylor Love Construction Ltd reported an audited tax-paid profit of $160,021 for the year to March 31 ($186,597 last year). An ordinary dividend of 13 per cent is payable.

Rheem New Zealand Ltd reported an audited tax-paid profit of $594,000 for the year to May 31 ($226,000 last year). A final dividend of 13 per cent is payable on August 15.

Wilkins and Davies Construction Company Ltd reported an audited tax-paid profit of $826,960 for the year to March 31 ($591,380 last year). A preference dividend of 7½ per cent and an ordinary dividend of 18 per cent are payable.

The week ahead

MONDAY: Wine Resellers Association conference in Tauranga.

WEDNESDAY: National Travel Association conference in Rotorua.

THURSDAY: A forum on New Zealand's future shipping needs in Wellington, sponsored by the Exports and Shipping Council and to be opened by Prime Minister Rob Muldoon.

Economic indicator

A TRADE deficit of $22 million was recorded in the month of April compared with a surplus of $6 million a year earlier.

Correction

LAST week's front-page article under the headline "Cooks takeover threat" incorrectly carried a photo of Mr Mate Yukich, instead of his brother, Frank Yukich.

We apologise for any misunderstanding which may have resulted.

The week

Fletchers-Forest Service talks on log prices

HARD on the heels of the Fletcher group's $30 million profit came discussions last week prompted by a state log sale arrangement which may have indirectly contributed to those profits.

The Government and the Forest Service want to correct the apparent anomaly.

Fletchers has so far stuck to its legal rights.

The Government-Fletchers talks are one of several moves on state forestry. They include:

• A parliamentary study of the Forest Service, the Government department which grows most of the country's exotic forests;

• Talk on the Government back benches of turning the Forest Service into a commercial corporation;

• A serious examination of alternatives to the present system of selling Forest Service timber by tender;

Vann Young . . . keen to avoid unemployment

• Re-examination of the regional basis on which the Forest Service sells its trees.

Several factors have prompted the reviews.

One is a boom in log export prices. Exported logs, mostly to Japan, are now fetching upwards of a stump value of $40 a cubic metre (more than $60 for A grade radiata pine), compared with an average of $14 to $18 for radiata sawlogs on the domestic market.

Another is a boom in sawn timber exports, which have risen by about two-thirds in the past two years. The boom looks like continuing.

Together, the two developments have put a squeeze on supplies at a time when trees are in relatively short supply anyway.

Some smaller sawmilling companies have found themselves with reduced supplies or no supplies from state forests. Tenders which would have secured supplies in the past have been outbid.

This has given rise to resentment at the power of the giant companies with their own forests, particularly Fletchers.

The resentment has not been helped by Fletchers' inexorable determination to grow bigger — as in its recent bid for Carter Holt.

Two arrangements have particularly irked smaller companies which depend on the Forest Service for supplies of timber.

One is Fletchers' contract for local Forest Service timber for its Kopu mill near Thames. Critics say Fletchers should use wood from its own forests further south around Taupo and leave state wood for those dependent on the state.

The other concerns a mill near Taupo sold recently by Fletchers to Tasman.

Tasman processes state wood in the mill. Fletchers exports logs from its forests in the region through Napier.

On the face of it this arrangement is above board. The Forest Service has a policy of not selling sawlogs to a company which has its own supply of sawlogs in the region concerned.

Tasman has no such supply, but Fletchers, which has a majority of shareholders in Tasman, does. If it still owned the Taupo mill, it would have to put its own logs through it or leave it idle.

Hot export logs are much more profitable than sawn timber. The state price to sawmillers is not covering the real, inflation-adjusted cost of growing the trees.

The Taupo arrangement amounts to a state subsidy of profitable Fletchers exports, critics say.

Not so, says Fletchers. Tasman is a separate company.

The Kopu arrangement does not infringe the regional rule, since Fletchers has no forests in the Coromandel region.

But the Forest Service is transporting logs from Kaingaroa forest in the Rotorua-Taupo area to make up supplies in the Coromandel area generally.

And Forests Minister Venn Young says that longer haulages of logs nowadays warrants a re-examination of the regions to see if they should be redefined.

This is now being done.

Relaxation of regional boundaries could put the Kopu state supply in long-term doubt. This is one of the means of leverage the Government has in its discussions with Fletchers over the Taupo mill.

Forest Service director-general Mick O'Neill says the service is aware of the apparent anomaly over the Taupo mill and wants to correct it.

But he acknowledges there is limited room for manoeuvre, since the Government wants to maintain log exports — not simply to capitalise on the current high prices, but to keep open one more option for the 1990s when large forest supplies will become available.

A minimum level of log exports is necessary to ensure ships will call on a regular basis. Young says Fletchers is a "reasonably important part" of this.

O'Neill describes the current rethink of Forest Service policies as a "balancing act".

A balancing act of a different sort is involved in the question of ensuring more equitable supplies to sawmillers.

If the Forest Service was an independent company, with thoughts only of maximising short-term profits, it would be shipping as much wood out of the country as it could in the form of logs.

That way it would get for its logs three times or more the price it gets selling to sawmillers.

Alternatively, the Forest Service could demand from sawmillers a price much nearer the export rate.

But social considerations intervene. Young is keen to avoid unemployment as a result of arbitrary closure of sawmills — specially when exports of sawn timber are booming.

And longer-term commercial considerations counsel caution.

Young sees log exports as "a valuable safety valve, but we wouldn't want to build an industry on it".

He is more concerned that some sawmillers have been left without supplies because the tendering system has allocated short supplies to higher bidders elsewhere.

Thus, he and the Forest Service are looking at alternatives to more fairly distribute supplies.

Two alternatives being examined: auction and individual negotiation. Target date for a solution: September, in time for the planned Forestry Conference.

But, however much Young is concerned with employment effects, he also feels bound to ensure the return on state forests is not too low.

This is not just in the interests of ensuring a good return to the taxpayer, but also to avoid undermining the value of privately-owned forests.

He may be under pressure from the sawmillers. But the new-breed MPs on the party back benches are no friends of state subsidised log sales.

There is thus some support on the back benches for the notion that the Forest Service should be cut adrift from political control and given a more commercial brief — perhaps in the form of a corporation.

However, such suggestions are some distance away from being adopted as formal Government policy.

The week

Wool Board committed to the 80/20 agreement

CLAIMS that Stevens-Bremner is "ready to go" with synthetic carpets have not gone unnoticed in the wool industry – and reaction, predictably, is unfavourable.

A Wool Board spokesman said the board was totally committed to support of the 80/20 gentleman's agreement which requires carpet content to have at least 80 per cent wool content for Nafta trade.

Synthetic carpet production would be at the expense of the domestic raw material, "which wouldn't make sense," he said.

While that would be the board's stance on production for the domestic and Australian markets, its position on production for other markets was "neutral", he said.

It was a commercial decision for the exporter, "but not to be welcomed," he said.

He said the board had heard suggestions that Stevens-Bremner was offering synthetic samples to the Australians, but said there was "no evidence" and he had heard these were samples of a North American product.

Federated Farmers is concerned about a number of aspects – particularly the prospect of synthetic carpet exports upsetting trade agreements.

And it says it would need some pretty good reasons for the 80/20 agreement to be broken.

Trade and Industry Minister Lance Adams-Schneider said last week officials on both sides of the Tasman had been renegotiating the Nafta carpet quotas – intended to become effective from March this year until June 1981.

The new agreement was to help improve the balance.

Asked if he was aware of claims that Stevens-Bremner was offering samples of synthetic carpets to the Australians, Adams-Schneider said he had "no details".

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That letter was sent in May. No concrete action by Adams-Schneider has followed.

Informed sources claim that Stevens-Bremner has already offered Australian carpet dealers prices to a sample for synthetic carpet from New Zealand and the United States – home of its 50 per cent owner, JP Stevens and Co of New York.

One carpet buyer, Charmans of Sydney, said it could neither confirm or deny offers by Stevens-Bremner.

But Stevens-Bremner managing-director John Roy told the *Auckland Star* (June 12, 1980): "We're ready to go".

Given Government approval and orders, his company would be producing synthetic carpets in two months.

Access to the Australian market hinges on a Nafta Schedule "A" deal, an inter-industry arrangement between manufacturers on both sides of the Tasman, ratified by both Governments.

The foundation to this arrangement is a gentleman's agreement by manufacturers in both countries not to export synthetic carpets to each other's markets.

Stevens-Bremner is not a member of the Carpet Manufacturer's Association and is not bound by this agreement.

Under the Nafta arrangement, New Zealand and Australian carpet manufacturers enjoy duty-free access to each other's market.

New Zealand can export a quota of 2.1 million square metres of carpet to Australia and the Australians can export up to 200,000 square metres of carpet to this market – so long as the carpets exported are at least 80 per cent wool.

Last November a deal was struck between Australian and New Zealand carpet manufacturers to increase both quotas by 400,000 square metres. This was to have become effective by April 1.

New Zealand exporters have been filling their 2.1 million square metre quota without having to divide the quota equally among manufacturers.

Hore said the small Australian 200,000 quota into New Zealand was filled by October.

The quota year runs from July to June.

Now the Australians want the additional access for the 400,0000 square metres promised. But, Hore claimed the New Zealand Government delays caused by the Millitron affair have delayed fulfilment of this promise.

Under the Nafta agreement New Zealand enjoys duty-free access to the Australian market. American carpets attract a 30 per cent duty and Canadian carpets a 22½ per cent duty.

The Australian Industries Assistance Commission has produced a draft report criticising this arrangement, saying "it paid no regard to the Australian consumer or international comparative advantage" and was the "antithesis of free trade."

The IAC's final report is now before the Australian Government.

The gentleman's agreement not to export synthetic carpets underlying the Nafta agreement is a temporary one to be reviewed each year.

Because the agreement is voluntary, there appears to be nothing to stop Stevens-Bremner making and exporting synthetic carpet.

Hore said that under the present duty structure, Stevens-Bremner could probably land synthetic carpets in Australia paying only 10 per cent duty. But his federation would oppose this with representations to the Australian Government, he said.

An added duty might be a way of compensating Australian manufacturers for New Zealand's advantage.

Following the New Zealand Industries Development Commission's recommendations on the textile industry, Government took synthetic yarn off import licence effective from July 1.

Thus there is nothing to prevent Stevens-Bremner from importing synthetic carpet yarn and making synthetic carpet for either the New Zealand or Australian market.

Wool yarn costs about $3.80 a kg, nylon about $2.80.

The New Zealand market has become highly cost-conscious and cheaper synthetic carpets probably would find ready acceptance here.

This would give Stevens-Bremner added throughput for its Millitron machine.

But Stevens-Bremner's competitors claim that wool-rich carpet, made from indigenous resources, is our forte and that any move into synthetic carpet would divert the industry from designing high-priced, high-quality wool carpet for export.

The Australians are against Stevens-Bremner's synthetic carpets for a different reason.

Australian synthetic carpet manufacturers must pay about 33 per cent above world price for their carpet yarn to a protected local industry (basically ICI, whose New Zealand subsidiary Fibremakers NZ Ltd, can't compete on price with imports).

Stevens-Bremner could import its synthetic yarn at world prices (one-third below Australian prices) and export carpet to Australia with a price advantage not only coming from lower-costed yarn but subsidised by our export incentives.

Any duty paid by Stevens-Bremner on imported synthetic yarn could be recovered when the finished carpet was exported.

But that is not on, so far as Hore is concerned.

The New Zealand Carpet Manufacturers Association appears not to be against the manufacture and export of synthetic carpets *per se* – though it is opposed to Stevens-Bremner exporting synthetics now.

Murray pointed out that the gentlemen's agreement not to export synthetic carpet to each other's markets was voluntary and temporary and up for yearly review.

It is at least possible that New Zealand might export synthetic carpet at some later date if a deal could be struck with the Australian industry.

But Murray said the Stevens-Bremner affair created a situation where New Zealand might lose its wool carpet market while precluding a future option for synthetic carpet.

The IAC report under consideration by the Australian Government is likely to call for reduced tariffs on synthetic carpet yarn imported into Australia.

If the Australian Government accepts such a recommendation New Zealand's price advantage would be reduced.

The IAC report is also likely to call for freer trade. New Zealand's price advantage in the Australian market depends to some extent on the Nafta deal giving us duty-free access and slapping heavy tariffs on carpets from other countries.

The Stevens-Bremner synthetic carpet affair has also held up another carpet company's expansion plans.

Castlecliff Spinners, a Wanganui subsidiary of Cavalier Carpets, is trying to put together a $1.6 million financial package – including DFC money – to expand its carpet yarn spinning facility and create up to 60 new jobs.

But this deal is hung up, awaiting clarification of the Stevens-Bremner synthetic affair.

NBR was unable to contact either Doug Bremner or managing director John Roy last week, despite repeated calls and messages to contact us.

Both were unavailable for comment when *NBR* went to press.

Comment

Editorial

STORM clouds are massing over New Zealand's privileged access to the Australian carpet market as financially troubled Stevens-Bremner prepares to export synthetic carpet across the Tasman.

The Australian market accounts for 60 per cent of all our wool carpet exports, and it is in woollen carpet manufacture that this country traditionally has excelled.

Stevens-Bremner's anxiety to make synthetic carpets is understandable. It wants to make better use of the $6 million Millitron carpet-printing machine which it set up in its Foxton plant. That machine was designed to print synthetic carpet.

While it has become increasingly clear that the Millitron is grossly underutilised, Stevens-Bremner has seen synthetic production as its salvation. Stevens-Bremner managing-director John Roy has said the company is "ready to go" and – given Government approval and orders – would be producing synthetic carpet in two months.

But synthetic carpet exports to Australia will have serious consequences for a trans-Tasman woollen carpet trade based on a gentlemen's agreement between carpet manufacturers in both countries (to which Stevens-Bremner is not a party) that exports be restricted to goods with at least an 80 per cent wool content. Trade and Industry Minister Lance Adams-Schneider is being called on by Stevens-Bremner's competitors to preserve that arrangement and uphold the Nafta accord.

But experience suggests that the Minister doesn't pay much attention to their demands. The same carpet manufacturers effectively spelled out to him in 1976 that his decision to allow Stevens-Bremner to import the Millitron meant the wrong machine at the wrong price would be sited in the wrong place.

The row which became public after Adams-Schneider announced the decision centred on which jet-dying machine New Zealand should use and, more specifically, on whether Stevens-Bremner should be the only company provided with an import licence to bring a jet-printing machine into the country.

The industry's evaluation of the Millitron *and other machines being* developed overseas led to the conclusion "that the Millitron is not the best machine for New Zealand." Among other reasons, the industry insisted that the Millitron had not been proved commercially for printing wool carpet. UEB and Feltex were insistent the Government had been precipitate *in granting* the *licence* to a company which then manufactured less than 10 per cent of the country's carpet exports, and which had a 50 per cent overseas ownership.

The major manufacturers were concerned to know why the decision had been rushed through before they had had time to complete their evaluations and discuss them with the Minister. Adams-Schneider explained he felt it was important that New Zealand buy the machine because it was the last in a batch of seven and the next wouldn't be available for two years. He didn't want Australian manufacturers to buy the machine ahead of us. But the carpet industry was confident that Australian carpet manufacturers were not in a position to invest in a jet-dying plant at that stage, and that lack of a Millitron in the meantime would not seriously affect our marketing position.

Adams-Schneider announced his decision as a particularly important development for New Zealand, not only as a manufacturer of carpets but as the world's leading specialised supplier of carpet wool.

The industry countered that the Millitron's capacity was too great. It could handle 9 million square metres a year, equal to the whole of New Zealand's carpet production. And the manufacturers warned that their industry could buy at least two competing machines for the price of one Millitron and maintain its present position on export markets.

Adams-Schneider rejected the industry criticism as "sour grapes". "I must put the national interest first, and make a decision, otherwise we'll be waiting forever for the ultimate newest and best machine to be developed," he said. He was "not prepared on the basis of speculation to gamble the production savings and export earnings possible through the use of the Millitron". He agreed the Millitron had not been proven commercially on wool, but said successful trials had been conducted on that fibre.

Adams-Schneider remains adamant he made the right decision. But now he is being called on to preserve the Nafta rules which prevent synthetic carpet exports from either country, he must be aware that his Millitron decision was made contrary to the advice of the carpet industry and that events have proved substantially correct the arguments of his critics at that time. He will be acutely aware, too, that Horowhenua – where Stevens-Bremner's Foxton plant is based, and where the troubles of Fibremakers in neighbouring Shannon pose another bundle of politically-sensitive problems – is a marginal seat for incumbent Government MP Geoff Thomson.

The decision is simple: buttress Stevens-Bremner by giving the okay for that company to use the Millitron to print synthetic carpets, and threaten our woollen carpet trade with Australia; or heed the warnings of the big boys whom he ignored last time, let Stevens-Bremner do what it can to retrieve its position in the woollen carpet business, and uphold the agreement on which the trans-Tasman carpet trade is founded. Above all, he must act in the national interest he insisted was uppermost in his considerations in 1976, even if the cost is wounded pride and loss of face.

Adams-Schneider, of course, is embroiled in decision-making issues with much greater implications for the future of this nation than carpet sales. His departmental experts are among those calculating the merits of a number of energy-intensive projects that will consume South Island hydro-generated electricity. Negotiations for a second aluminium smelter, for example, have reached the critical final phase and all that remains to be determined is the price at which we can advantageously sell the 3000GWh required for a second smelter.

The Government's eagerness to foster these developments has come under plenty of criticism and figures have been bandied about to cast serious doubts about the economic viability of some projects. Ministers like Adams-Schneider rebut the doubters with statements that maintain the schemes are both worthy and in the national interest (although they remain reluctant to produce data so we can try to calculate for ourselves the benefits and disadvantages). The Millitron experience gives every good reason to be sceptical about the Government's great expectations from resource development. If the Minister and his advisers can't get the little $6 million schemes right, they can't expect us to believe they will be any more successful in promoting multi-million-dollar behemoths.

Bob Edlin

Without word of a lie

Financial drama after the final curtain

PLAYWRIGHT Joe Musaphia has no cause to applaud the final curtain's fall on Sydney's Old Tote Theatre Company.

The company went broke in August 1978. Almost two years later, only a fraction of the debts of more than $680,000 has been recovered.

Former employees and the tax man – as preferential creditors – have received a portion of what is owed to them from the sale of movable assets, according to *The National Times*. But the largest single group of creditors – 158 unsecured backers owed a total of $334,000 – have got nothing.

That group covers the full range of people with whom the Tote dealt – printers, photographers, airlines, taxi-firms, direct mail and publicity outfits, actors, the accountancy firm hired in 1977 to try to sort out the company's financial mess and playwrights.

Musaphia is owed $8600 in royalties. Says his legal representative, Bill Sheat: "It's unconsionable that they can simply leave the creditors lamenting."

Chocker Fokker grounds Okker

AIR New Zealand might lose $20 million this year. But airline employees haven't lost their facility and agility of expression – nor their sense of humour.

It seems an importunate Australian businessman was stranded in Blenheim on his way to Wellington on Air New Zealand. The Wellington flight was full and the Aussie didn't have a reservation.

Still, he tried to throw his weight and importance around till an airline staffer said: "Listen Okker, the Fokker's chocker.

The full Fokker Friendship left the tarmack having our Okker on the ground, perhaps to ponder on an answer to our cultured Kiwi.

Not yet ready for ghost writing

LAST Wednesday's *Press* in Christchurch reported that Dame Ngaio Marsh was in a comfortable condition and receiving visitors, obviously recovering from her recent heart attack.

The 81-year-old writer and theatrical producer had been seriously ill since she was admitted to the Princess Margaret Hospital cardiac care unit in Christchurch on June 7.

But not as ill as the *Guardian* would have its readers believe on June 13. The British newspaper devoted a full column of space to Dame Ngaio's obituary under the headline.

"Solved her last case".

Selling the Coromandel for a silent song

REMEMBER all the hoo-ha about the new Saudi-New Zealand Capital Corporation some time ago? Not heard much about it lately have you?

Seems the DFC was to come up with some private New Zealand shareholding to match Saudi Prince Nawaf's $10 million stake.

DFC executives suggest that the reason for the resounding silence is that no one is interested.

The same DFC people are getting a rough time in the pub and private parties because the public somehow think the Government thought the DFC traded that Coromandel land for a $10 million investment.

Brockie's view

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Comment

Delicensing will strengthen freezing industry

by John Foster

THE export freezing industry has lived in a state of protection for almost 50 years. Under a combination of licensing and price control, the industry has developed a purely cost-plus approach, raising its killing fees at frequent intervals. Because of declining productivity and expenditure on hygiene, increases in killing fees have far outstripped inflation.

Government removed price control last October. The Meat Amendment Bill No 2 before Parliament will largely remove the restrictive nature of licensing. This move is essential in the short term to enable new facilities to be built to service the rapidly expanding sheep and lamb kill. It is highly desirable to promote motivation and change within the industry but because of the time involved in commissioning new works this factor will only be achieved in the longer term.

Arising from the threat the introduction of the chain slaughtering system brought in increasing the productive capacity of freezing works, the Slaughtering and Inspection Amendment Act was passed in 1934. Any applicant seeking to build or extend a freezing works had to prove "economic necessity or justification" for the proposal and show "the probable or possible effect on the ability of existing licensees to obtain regular supplies of stock sufficient for the reasonable requirements of their business". This criteria has remained in force ever since.

The 1934 legislation has been so effective it has "fossilised" the industry. Of the 36 works in operation in 1934 only the small works at Tokomaru Bay (1952) and Ngauranga (1973) have closed. Where else in the history of commerce could you find such a survival record?

Since 1934 livestock numbers have more than doubled and the kill trebled. The kill has been accommodated by existing works typically trebling their size.

This protective barrier has produced an industry whose cost structure is high, particularly in comparison with Australia. In the world sheep and lamb export trade New Zealand accounts for 50 per cent of the tonnage. The health of its livestock is the best in the world. The average size of works is large by international standards, enjoying economies of scale, which was the basis for the industry increasing existing works, as opposed to building new ones. The average national wage level is lower than in Australia. The industry is not undermined by large exports of livestock.

With these advantages, our sheep and lamb freezing industry should be demonstrably the most efficient in the world. This is not the case and in any analysis such a long period of licensed protection must be the number one target for blame. Competition is the only solution.

This is not pure theory. The W Richmond/Dawn Meat joint venture, Pacific Freezing, opened its beef works in Hastings in 1974. It adopted the Hawke's Bay level of killing charges which were marginally below those operating in the rest of the North Island. Subsequently, as a result of *competitive* forces a gap opened up between Hawke's Bay (whose rates are set by Whakatu) and the rest of the North Island (whose rates are set by AFFCO).

In 1978 Pacific held its fees while other companies increased theirs. Pacific's beef killing fees are now only two-thirds of AFFCO's.

A graph sets out the changes in the AFFCO, Whakatu and Pacific rates. This clearly shows that the introduction of Pacific's competition has held down the Whakatu rates.

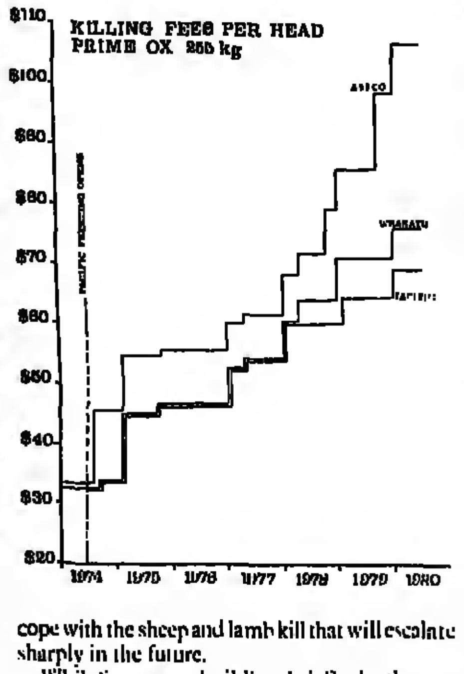
The question must be asked – what would the Hawke's Bay beef rates be today but for the introduction of Pacific?

The most basic reason behind *Pacific's* success – it has killed over 500,000 cattle since it opened, has an impeccable industrial record and demonstrated that the industry heavily overspends on capital projects – lies in the fact that it had to succeed.

It was a joint venture built by two small companies, both of which were in difficulty, either obtaining killing space in existing works or having its product processed to its particular market specification.

The Bill will not change anything overnight. Even if all the planning is done, a new freezing works takes two years to build and two further years to commission. This shows the industry's request for 10 years notice of delicensing to be as ridiculous as it is. Also, the high capital cost of new works will restrict the number of new works being built.

The immediate concern is how will the industry cope with the sheep and lamb kill that will escalate sharply in the future.



While farmers are building their flocks, they are simultaneously suppressing the kill. In addition there is a biological lag between increasing a flock size and the increased kill resultant from it. Between June 1975 and 1979 North Island sheep numbers increased 18 per cent. Between the 1975/76 and 1979/80 June-ended seasons the total North Island kill will rise only 9 per cent.

It is realistic to expect an increase in the total North Island kill next season of 2 million (12 per cent) with a further 2.5 million being added by the 1983/84 season.

It is equally realistic to forget about the chances of having a climatic season like the current one which reduced the peak demand on killing space and extended the length of season.

Pacific Freezing has been to the Meat Industry Authority twice and argued against five objecting companies for 46 days over it's plans to build a three chain sheep works near Dannevirke. Much of the debate centred on future sheep numbers.

Pacific's forecasts were the highest put forward and were rejected by the authority.

The 1979 sheep census recently released, now shows that Pacific's sheep forecasts are too low. Four years have been lost. The works when finally built will cost more than $10 million more in capital terms and by then farmers will have incurred additional costs through an inadequate killing service.

Finally, the industry after such a long period of protection, is in desperate need of change. Change is more likely to be promoted by a new company, building its first works, in that it is not inhibited by prior capital investment decisions.

Many industrial studies have shown the smaller young company to be more innovative. The new Bill will promote change and in the longer term the industry will be stronger for it.

JOHN Foster is the general manager of Dawn Meat New Zealand Ltd.

Joint efforts open door to big deals

by Allan Parker

SAD little tale – case one: It involves a small manufacturer of a specialised, high-quality consumer product in one of our provincial centres.

This particular manufacturer was rather keen to get his act together in the export field and decided to participate in one of the Government-sponsored trade fairs in the United States.

Enter big chain store buyer: "Those look pretty good. Price seems right, too. How many can you supply?"

New Zealand manufacturer: "Fifty."

Big chain store buyer: "Good, that's for the first month. Now, how about the rest of the year?"

New Zealand manufacturer: "That's for a year."

Big chain store buyer: "Sorry, fella."

End of deal.

Sad little tale – case two: This one involves a fish-processing project between a New Zealand company and the Soviet Union.

The project calls for the New Zealand company to process and export the catch from a large Soviet fishing boat fleet in New Zealand waters.

The deal falls through, however, when the New Zealand company decides it just hasn't the resources or ability to process the large quantities that will be caught by the fishing fleet.

End of deal.

Here in New Zealand, we pride ourselves on our ability to produce short-run orders, to fill the market gaps which the big mass producers can't be bothered touching.

It's our one salvation, we are told; flexibility and adaptability to fill niches in huge overseas markets will pull us out of the mire.

And it is an argument that is hard to disagree with. Our manufacturers have proved that they can find export markets by providing this type of service.

But should we as a nation be prepared to accept the peanuts when we could be out hunting the bigger bikkies?

The two sad little tales described above have actually happened. How many lost export dollars did they represent? And how often is this sort of "end of deal" exercise happening? Certainly, they are not isolated instances.

The reason is obvious, most will say. Our resources are limited, capital scarce, and manufacturing units too small to contemplate large-scale operations of the type best suited to the large-run mass producers.

In many cases that is true, but it need not be always. We do not need to suffer an imaginery inferiority complex because we think something is too big to handle. And offering manufacturing licences to overseas companies need not be the only answer.

Let's take the two cases mentioned above.

In the first, the manufacturer could have joined forces with a competitor to supply the export order to the United States chain store. And, in the second, the New Zealand fishing company could also have combined with others in the field to establish a joint processing operation.

But no. Both deals fell through because the two New Zealand parties could not imagine linking up with competitors.

That's a fair enough argument when you are talking about the home market. Everyone wants their share of the market.

But need that position apply when a totally new market is in sight? And in these hard times, who can afford to ignore any share of a new market?

The *necessity to maintain* confidentiallity among competitors joining in such an exercise does not have to be the problem it might at first appear. How often do we hear, for example, that pricing for export sales should be treated as a completely different exercise, anyway?

Or a third company could be established by two competitors, with new *staff*, to handle the export side of the business.

There are, of course, bound to be some problems and suspicions. But given the right attitude, there is no reason why these problems can't be ironed out and suspicions eased. Particularly if there is a profit in it for everyone.

For the last hundred years we have regarded ourselves as a small, isolated backwater in the international arena.

But the performances of some of our exporters in recent years have done much to show that we don't have to regard ourselves as too small. Thinking big when the occasion arises can do us all a lot of good.

Joint ventures, such as these may mean that you are sharing the market and the profit. But you are also sharing the risk. And that's not a bad business principle in these straitened days.

Allen Parker is a freelance journalist specialising in business and trade affairs.

Letters

Bringing back bacon and eggs

MUCH has been said about the present pig stock surplus and the amount of pork that has been imported.

The fact is that up till last Christmas we were all desperately short of pork for processing.

Throughout the industry, sales were good up till Christmas. Very few operators were holding surplus stocks after Christmas. Since then pork sales have slumped, which means thot pork producers have had to carry their pigs on to baconers. At the same time, bacon and ham sales have been slow during the same period.

Net result is that without any increase in production a stock surplus has been built up in a very short period. From a desperate shortage at Christmos, we changed to a surplus situation by the middle of February.

Our recent price lists are indicative of the industry throughout New Zealand — we have to he competitive — and show a substantial drop in the wholesale price of hacon and ham. Since April 7 1980 till May 26, a period of only aeven weeks, our wholesale prices foi bacon and ham have dropped 28 cents, and 33 cents per kilo respectively.

	April 7 New Priea $	May 26 Old Priea $
Flat sides	3.60	3.68
Rolls	4.40	4.50
Middlaa llat	4.32	4.40
Middlas rolled	4.90	5.00
Middlaa rindlees	5.40	5.50
Shoulders flat	3.90	3.75
Shouldars rollad	4.40	4.50
Raw hams	4.07	4.15
Rolled raw hama	4.90	5.00
Cookad llat hams	4.70	4.60
Cookad presaad hams	5.72	5.80
Praaaad ham halves	5.92	8.00
Cooked pressad shouldars	5.40	5.50
Taaty alt pork loaf	3.90	3.60
Prealona	4.90	5.00
Pura leaf lard (bulk)	4.80	1.14
Pork fillals	4.80	4.60
Bacon bonaa	1.00	1.00
Trotlers	1.90 Doz	1.80 Doz

We feel the industry is playing its part in bringing bacon and ham prices to more reasonable levels.

At the same time we have the greatest sympathy for the pig farmer who has suffered a drop in the price of pigs by some 20-25 cents per kilo, which makes the difference between making a reasonable profit for the work involved, and losing heavily.

For example, this week a local pig farmer purchased four tonnes of meatmeal for about $960. How can he possibly make a profit at todays' prices?

The Pork Marketing Board did a good job in buying up the surplus pigs as they came to hand, but very soon the surplus outstripped their financial resources, and the money the Government was prepared to let them have on overdraft, with the consequence that pig prices have equated themselves to the Pork Marketing Board floor price.

Looking ahead it would seem that the overproduction will not last too long and, because of the big price drop, in a few months we ahall aee a far greater pig shortage than we have experienced recently.

When will we see some form of atabilisation in the industry, where the farmer and the processor will know for a certain period ahead .what the prices will be?

One of the problems is that with such a small population a swing of just 3 or 4 per cent in production can place us is a situation of surplus or shortage, neither of which we can handle very easily.

Much of our problem goes back to when a great noise was made that we had found trichinosis.

Since that time our pigs have been banned in many countries, and how many cases of trichinosis were found? So few, that not many fingers were needed to count them.

With the passage of time the Pork Marketing Board ond the Bacon Curers Association have come to the realisation that they are interdependent. Good relations, co-operation, and more importantly trust now exist — something not evident a few years ago.

At this time, the Pork Marketing Board is promoting both pork, and bacon and ham sales, in the knowledge that both areas need to increase sales if their large pork stock is to be dealt with quickly.

We in the bacon curing industry will certainly do our hit in both sales and promotion, helping to bring back the renowned breakfost of bacon and eggs.

Gordon Vogtherr
Hastinga Baeon Co Ltd
Hastings

Locating economists

I CANNOT understand why your anonymous econontics correspondent (*NBR* May 12) thinks that economists "such as those at the institute" are so constrained by a framework of economic analysis that we dogmatically avoid, or are somehow not equipped to handle locational aspects of economic activity.

Your correspondent probably should know that we have completed a substantial amount of project work on the economic implications of location and transport.

I have always argued that regional policy should be based on more than a narrow economic ossessment and also that the nature of the regional "problem" must be identified before corrective policies can be introduced.

Therefore I would not be dismissive, as your correspondent is, of Dr Scott's conclusions in this area.

I think it essential that the "prohlem" be identified and understood before corrective measures are taken, particularly as the corrective measures, even if they only involve setting up machinery for integrating regional grievances into the planning process, are not without direct cost.

And, more importantly, corrective measures to overcome perceived problems, which may in reality have little substance, may he, indirectly, very costly.

I am not against a regional economic policy and in fact outlined at some length in previously published material what I thought such a policy should encompass But now I think there is considerable danger that national economic problems will be seen in some regions as regional, rather than national problems, encouraging an inappropriate response. Your correspondent's efforts seem more designed to heighten this *confusion* than reduce it.

A hrief comment on Peter O'Brien's article (in the same issue) on "Quarterly Survey of Business Opinion" results.

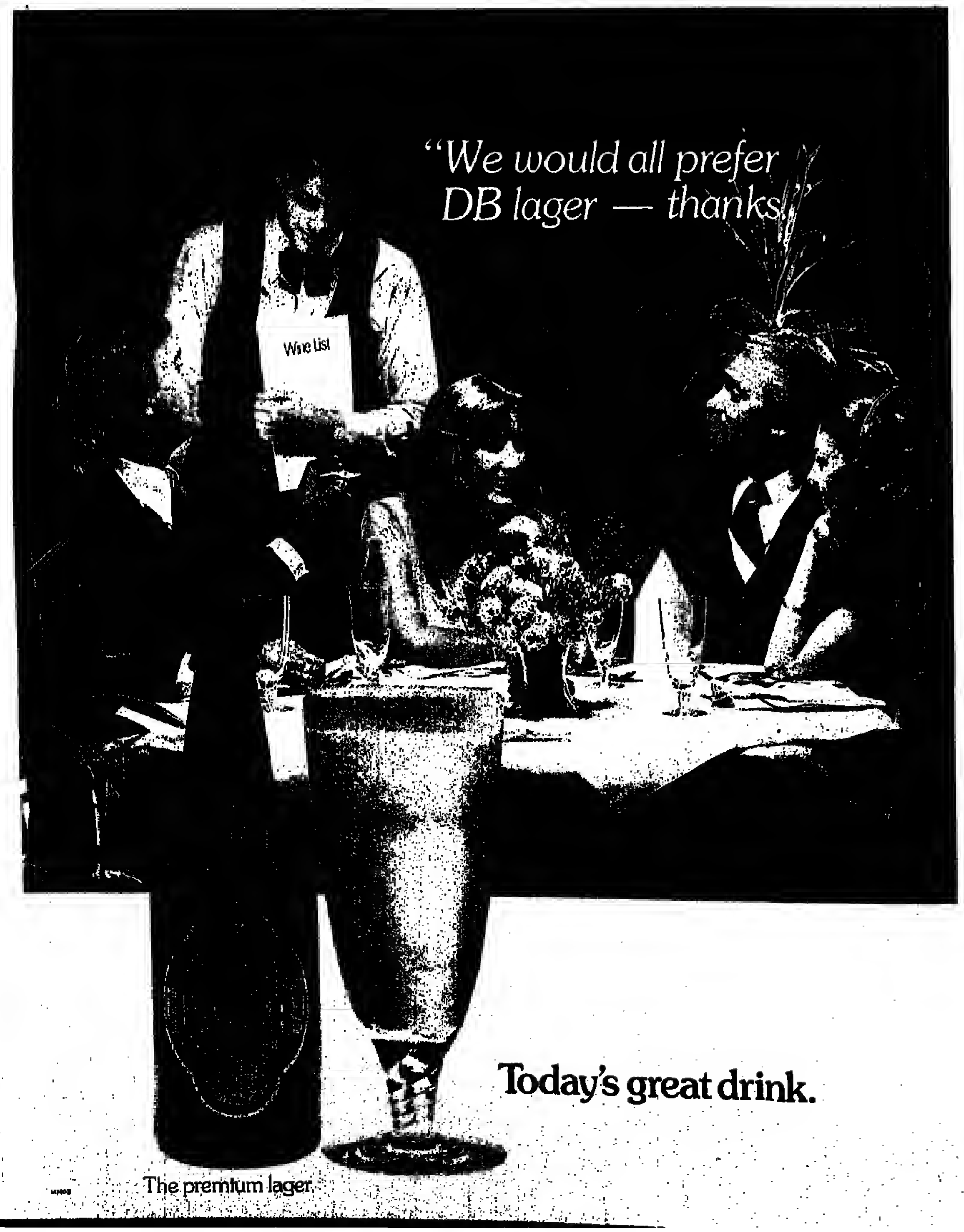
We have generally been aware of the problem of "forecast feedback", but more in relation to *Quarterly Predictions* than the *Survey of Business Opinion*. In our experience the survey respondents generally form a fairly personal and honest view of the firm's situation. But perhaps a cause of forecast error with *Quarterly Predictions* is that when the view ohead is gloomy corrective action is encouraged and vice versa.

Kerry McDonald
Director
New Zealand Institute of Economic Research

A REVIEW of Dr Scott's publication, *Regional Development Objectives and Policies: An Appraisal*, appeared because it is a valuable reaearch report. Any criticisms were not intended to be dismissive, but to put this 150-page document into context.

Comments about the Institute were based on their previous reports on regional development.

These reports claimed to go beyond economics and study social, cultural and environmental factors, but instead they were preoccupied with those aspects of regional development which could be analysed within the traditional economics *framework* such as changes in the population, labour force, industrial production and location and components of private costs such as labour, materials and transport charges — Editor.



Politics

Is Labour Party ready yet for the fast-trackers?

by Colin James

BLEEDING in public is a Labour specialty, just as it is a National rarity (note Remuera).

So much is it part of Labour expectations, that bleeding over candidate selections was a reason for bringing the selections forward. The earlier the motions, the reasoning went, the longer the time available to smooth them over.

Last week the party seemed to be coming out in a rash of resignations.

First George Madden, chairman of the Onehunga Labour electorate committee, then Balmoral branch chairman Jack Hughes in Eden — both elder men, both concerned about selection procedures.

Was fast-track party president Jim Anderton coming unstuck? Not yet, as it turned out. The "resignations" were not what they seemed.

More of that below. First, we might inquire why it is that, just when Labour has given more power to the electorates in selecting MPs, some local officials should be making an issue of demands for yet more local say.

Some of the answer lies in Anderton himself. The very qualities that make him a strong figurehead against the party's enemies also inflame people inside the party.

Watch him next time he is under pressure on television as he was last week.

He has the same quality as the Prime Minister of rolling to the side of a punch and coming back on another tack — but on the offensive. Anderton has the true politician's instinct of never letting himself be put on the defensive.

Attractive as this high competitiveness is to a party which since Norman Kirk's death has had to take its political consolations from being the "nicer guys" on the national stage, it has its disadvantages.

Competitiveness is also abrasive. Anderton is at times downright rude. There is an edge to him.

By and large the edge seems to be rescued by charm, that same quality that allows goldsters (and rogues like Bob Seldon) to stay on their feet in political marshes while others sink up to their knees.

But it can also breed over confidence, brashness — as in a moment's unthinking, gloating exuberance outside Labour Onehunga headquarters on selection night when defeated National candidate Sue Wood made the rituol loser's visit to the victor.

That is not so serious. Teasing the enemy is part of the game.

But bruisers, especially unmodulating or accidental bruisers, can sometimes do it to their own "supporters".

And bruised feelings do not motivate wet, cold Saturday morning doorknockers.

The rank and file must be cajoled, jollied, coddled, given gold badges and the chance to see the great.

Anderton leads from out front, hurtling from new idea to new idea. This has turned up a lot of enthusiasm and activity among those who can move at his speed and approve of his direction.

But his frenetic pace is throwing up echoes of old criticisms among some insiders and not just amongst resistant conservatives — that he does not follow through his ideas.

If his presidency works for the Labour Party, which by and large it seems to be doing, it will to a fair extent depend on the quality of second-string organisation figures.

I will come back to that later.

Meantime, the quickened pace of change is making older party stalwarts nervous — some anticipating nonetheless an overall good result, but some retreating into a bewildered belief that the party has fallen into unreliable hands.

This seems to he at least partly hehind Madden's departure.

Madden's outspoken criticism of Fred Gerbic and his head office backers before the selection meeting and his subsequent huff was comforting to a National Party looking for exploitable material in the "Anderton's people" line about candidate selections.

Reliable information is not easy to come hy, though it does appear his actions may have led to some limited cross-voting by Labour supporters in the by-election.

But there is no firm evidence of widespread defections over Gerbic's selections.

Objections to his selection centred on three grounds.

The first, that he was an outsider, was scarcely tenable. Though his house is in plusey Hillsborough, it was in the Onehunga electorate until the 1977 redistribution and even now is only half a kilometre outside it.

The second, that he is a unionist, seems more angled at selection meeting endorsement of Gerbic hy the engineers union which helped ensure pro-Gerbic electorate vice-chairman, affable union official Jack van Dyke, became official selection panellist.

Given the general cry in the party for more, not less, union representation, criticism of Gerbic on that score is illogical.

The third, that he was imposed by the New Zealand council over the wishes of the local party as shown in the straw ballot, holds more water.

According to my information, Molcolm Douglas easily won thot ballot, but had no panel support. Dorothy Jelicich wos second on the ballot, but had two local panel members' support.

This divided local support gave Gerbic a clear run in on the three New Zealand council panel votes, even though a distant third on the straw ballot.

I don't intend to go deeply into the Onehunga electorate's labyrinthine politics. They would warrant a page on their own and in any case there is little I could add to a perceptive *Auckland Star* analysis of June 14 by Brian Rudman, whose information ogrees closely with my own.

The point most at issue is the straw ballot, which is taken of party members who turn up at the selection meeting and which counts as one panel vote.

In Eden, too, the successful candidate — Dr Ian Scott, an outspoken acknowledged homosexual — did not come first in the straw ballot, but did have council support on the panel.

Hughes, the Balmoral chairman, was reported to be on the point of resigning over the selection.

Not so, it turned out. He insists he is happy with Scott's selection and that his thoughts of resignation — hurriedly rescinded — were prompted hy matters that had nothing to do with the selection.

In fact, he partly confirmed to me from his own experience claims by Scott that 20 people had joined the party in Eden since his selection, giving his candidacy as specific reason.

But he is concemed that more weight should be given to local feeling in selections.

Re-enter Malcolm Douglas, this time clear winner of the Hunua straw ballot, but loser to Colin Moyle in the selection. Some hard heads in the party say that it will be in Hunuo rather than storm-in-teacup Onehunga and Eden, that there will be real party resistance to the candidate.

As I said in an April column on safe seat selections, the straw ballot has hecome important — though in more ways than one, it now appears.

Given official recognition for the first time only this year, the ballot seems destined to gradually loom larger in the selection process as party members realise its leverage.

This would force some rationalisation of the ballot, perhaps along National Party delegote lines, to reduce present possibilities for stacking the meeting and so the result.

Where a clear front-runner has emerged both among electorate membership as a whole and in the inner cabals which appoint selection panellists, the straw ballot has been a confirming factor.

But where there has been division, the straw hallot has offered those suspicious of Anderton's style of presidency a weapon of complaint.

Anderton's problem is longstanding: how to reconcile the liberal, progressive middle-class leadership with the conservative working class rank and file and voting support.

One possible solution seems to be slowly developing under the wraps of the policymaking process: the ahandonment of attempts to achieve impossible catchall compromises in favour of radical, bold new policies, particularly in economics, capable of appealing to hoth sides of the gulf.

A tip of this iceberg showed in Parliament a couple of weeks ago when the iconoclastic Roger Douglas pleaded a strong case for overseas investment.

An "astounded" National minister Colin McLachlan, following Douglas in debate, declared there was nothing in Douglas's approach he could not agree with.

Douglas has made a habit of turning Labour ideas on their head, particularly in the last two years — and with some success inside the party.

Now, in the party policy council, of which he is a memher, and in hack-bench caucus committees, chaired by thrusting younger MPs, signs are emerging of approaches in other fields thot are similarly rodical (which is not necessarily "left").

This raises two questions:

Can we take from the fact that Bill Rowling decided the committee chairmanships that he is inclining towards the younger, more radical approach, despite his apparently cautious public stance?

Is there the wit in top party councils to pull the emerging ideas together into a set of policies at the same time recognisably Labour and unmistakeably modern? And if so, will there be time to sell them before the 1981 election?

Answer in this space in six months or so.

Economics

Government reduces deficit – but debt rises

THE Prime Minister proudly announced last month that his Government had been successful in reducing its deficit before borrowing from more than $1445 million in 1978/79 to less than $1023 million in 1979/80. But despite a reduction in the difference between what it spent and what it collected in revenue from taxation and miscellaneous trading receipts, the Government borrowed more money in March year 1980 than it did the year before.

According to the latest summary of the Public Accounts and the Controller and Auditor General's report thereon, public borrowing rose by $1257 million in 1979/80 to finance a Budget deficit of $1023 million.

In 1978/79, when the deficit before borrowing was $1445 million, the net increase in the Government's debt was only $1336 million.

Readers may wonder how it is that the Government's borrowing can rise in a year when its budget deficit before borrowing falls.

The answer lies in the construction of the summary table of the public account, commonly known as Budget Table 2. This summary table records total Government spending on goods, services and current debt and investment transactions.

It does not record changes in the Government's cash balances, new investments or its capital purchases.

Nor does the Budget Table 2 deficit take into account the additions to the Government's debt due to currency realignments.

Table A shows the basis for calculating the Budget Table 2 deficit. In 1979/80, the Government spent $7886 million and received $6863 million from ordinary receipts. The difference between what it spent and what it received was $1023 million.

But the Government also used cash in other ways as Table B shows. It increased its cash balances and investments by $202 million and purchased $53 million worth of capital.

So all told, the Government spent $8141 million in March year 1980.

Because changes in cash balances are recorded "below the line", the Government has been able to show a greater improvement in the growth rate of state spending than it would be able to show if changes in cash balances were shown above the line.

According to the familiar Budget Table 2 construction spending increased by 11 per cent during 1980 but an analysis of total spending (including cash) shows a rise of more than 13 per cent.

And the deficit before borrowing is lower in 1979/80 than it would be if cash balances were shown "above the line" as part of Government spending.

This sleight of hand suits the Government's political purposes because the public's attention is focussed on the familiar Budget Table 2 deficit before borrowing and report of total Government spending.

By changing its cash balances, the Government is able to show less extreme changes in its borrowing.

If its cash balances had not been run down in 1978/79, it would have needed to borrow nearly $1500 million to finance its current activities instead of $1210 million. And if it had not decided to increase its cash balances in 1979/80, the Government's debt to finance its current activities would have been $1076 million instead of $1278 million.

To get an appreciation of the influence of Government public account transactions on economic activity, the information about how total Government spending is financed is more valuable than the Budget Table 2 deficit on its own.

Deficit financing takes several forms. Borrowing from the Reserve Bank or running down cash balances at the Reserve Bank is one of the more expansionary means of financing Government spending. Not only is there an expansionary effect from an additional amount of Government spending, but the money supply will increase as cheques drawn on the Reserve Bank are deposited with the trading banks.

In 1978/79, the Government was keen both to stimulate the economy and to get money into voters' pockets so that it would be re-elected in November 1978. This is one reason why it chose to finance its activities by running down its cash balances rather than increasing taxes.

Only 51 per cent of Government spending was financed out of income taxes in 1978/79 compared with 55 per cent a year later.

Another way of financing the deficit is by overseas borrowing. This will have an immediate expansionary impact on economic activity, but may have a contractionary influence in latter years when the debt and interest are repaid.

Growing proportions of Government borrowing have come from overseas. Of the total debt outstanding at March 31, 1980 of $10,346 million, external debt represented nearly 35 per cent. This compares with 33 per cent for March year 1979 and 1978 and 29 per cent for 1977.

Generally, the Government finances capital development only with overseas borrowing. But there has been an increasing tendency to finance current spending with overseas funds.

The Audit Department has commented that this is a significant departure from previous practice and cautions that "the use of such a facility may be justified in certain circumstances but it should be availed of sparingly and be subject to responsible constraint".

The Government justifies its use of loan money to finance current expenditures in 1980 "on the grounds that substantial capital activities are now being financed from the Consolidated Account (the account of current payments and receipts). Transfers in excess of the amount needed to finance those capital activities previously met from loan moneys are necessary to encourage the fuller use of the country's resources and to maintain economic activity in general."

In other words, economic activity in New Zealand is nearly stagnant and the Government is attempting to prime the pump by spending borrowed money on the salaries and wages of public servants. If the economy does get moving again, this is a sort of investment in the future.

Two other forms of Government borrowing to finance its deficit include borrowing from trading banks and borrowing from the non-bank private sector. It borrows from trading banks by selling Government securities, or Treasury bills, which are exchanged for cash. The public is helping finance Government spending when it buys Government Stock.

The economic effect of borrowing from trading banks depends on the reserve asset requirements and other institutional arrangements and policy reactions.

Borrowing from the public offsets the expansionary effect of an increase in government spending with a contractionary effect on the money supply. The Government spends cash and the public agrees to give up cash in exchange for Government stock.

The least expansionary method of financing increases in Government spending is through taxation. And the proportion of expenditure financed from taxation in 1979/80 was 74 per cent, a substantial increase over the year before. This reflects the Government's stated desire to control inflation.

It is unlikely that the Government can get such a large increase in income tax revenue next year. And if it really means to reduce income taxes, it will have even greater difficulty.

Under normal conditions, this would suggest that the deficit before borrowing will rise again next year. But there is an easy solution to this problem. By building up cash balances by $202 million, the Government will be able to finance its spending simply by running them down.

TABLE A: CENTRAL GOVERNMENT RECEIPTS AND PAYMENTS, BUDGET TABLE 2 BASIS
($ million)

	1979/80	per cent change	1978/79
Government spending:	7886	11	7132
Financed from:			
Taxation	6020	21	4990
Interest	543	20	452
Dividends and Profits	29	3	28
Other	271	25	217
Total ordinary receipts	8863	21	5687
Excess of spending over ordinary receipts:			
Budget Table 2 deficit	1023		1445

TABLE B: CENTRAL GOVERNMENT FINANCIAL ACCOUNT
($ million)

	1979/80	per cent change	1978/79
Increase in cash balances and investments	202	142	-287
Capital equipment purchased under credit	53	2	52
Budget Table 2 deficit	1023		1445
Net increase in debt on current activities	1278		1210
Increase in debt due to currency realignments	249	98	126
Total change in Government's Debt	1527	14	1336

Sleeping partner reaps harvest

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses company accounts.

THE sleeping partner, who takes 45 per cent of the profit, is the major problem in New Zealand business.

Company taxation is somehow accepted as a logical and "equitable" imposition on earnings *from corporate* activity.

Examination of the present system leads one to the view that it is illogical, and finishes up being inequitable on the ultimate payer of all State revenues; the consumer.

Various union groups claim that companies receive taxation benefits to the detriment of wage and salary earners. The overall share of income tax paid by companies is calculated (in round figures) at around 10 per cent of the total income tax take.

That is correct, and it is also correct that the system of export concessions, investment allowances (which are uneven in their application), and the tortuous process of working what is assessable income and what is tax free, reduces many companies' tax below 45 cents in the dollar.

The union argument (and with respect to union officers, probably no more than half a dozen of them have a detailed knowledge of company tax, a field which is an industry in itself) overlooks a *fundamental* concept in business finance.

Taxation is a cost of doing business. Few companies today would draw up a budget on the basis of pre-tax profit. They look at the bottom line after tax, treat tax as a cost, and build it into their costs.

It is the after-tax profit which provides the dividends and which gives an amount to plough back into the business. The government's share has nothing to do with the final profitability of the enterprise.

Remove company taxation, and the administrators might be surprised at probable results.

First, profitability would rise. Second, there would be an additional amount for investment. Third, that would result in increased job opportunities. Fourth, the involved system of allowances and so on would cease to exist. Fifth, the vast number of manhours which companies spend in working through tax laws would be used for more productive purposes. Sixth, the cost to the State of working through tax laws on the opposite side of the fence would be reduced substantially, with a consequent saving in government expenditure. Seventh the savings to companies could also be used to either hold, or reduce, the price of their products. Eighth, New Zealand in international terms would become a low cost country (remember that tax is a cost of doing business) and our attraction would increase from the viewpoint of necessary overseas investor. Ninth, unions would see a company's "real" profit.

Tax in antiquity was a system of specific levies of duties and so on to fund specific purposes, often war. The benefits to the population could be assessed in the fruits of the specific purposes. (Bad luck if you lost the war, or if the ruler spent the income on non-productive excesses).

Later it became a system for funding State activities. Today taxation is, in part, still a system for funding State activities, often described as "essential", by the proponents, although some of the so called services are open to question.

But taxation, particularly company tax, is also an economic weapon, and is becoming more political than economic. Thus we have a crazy system of allowances and "incentives", which applies unevenly (and is therefore discriminatory), and is open to abuse by smart finance men, and those whose pressure groups have ministerial and administrative ears at any given time.

A counter argument can be raised on the question of export incentives. remove those allowances (irrespective of the particular incentive system) and people will fail to export, the country will earn less overseas exchange, and we will be *further in the mire*.

Those arguments have flaws. A company which failed to export would rely on the local market and find its production was too great for a small market. The exporter would, through a nil tax liability, be able to reduce its costs, and become more competitive, with consequent greater earning ability in terms of overseas exchange.

(Few companies have nil tax liability from export incentives. Even if their rate was, say, 10 per cent, the removal of that cost would still lift their competitiveness overseas).

Companies which were lazy, and unwilling to use the effort to export, would find their operations an open target for groups which would use the assets in a more efficient manner, or they would go to the wall. Overseas companies would invest, export, and increase or earnings, because revenue is earned; many times higher than repatriated profit.

That is the operation of market forces, a concept which is far removed from the mentality of administrators. Few public servants who deal with these things have any knowledge of the marketplace, because their lives have nothing to do with the "bottom line". There is no constant measure against which their relative performances can be assessed.

Profit is the constant measure in the private sector, and at present the profit is calculated after building in a tax system which is irrelevant to real performance, and which results in an artificial method of reaching the real gain to the company.

If corporate tax were to be abolished, provision would be needed to deal with private companies where the shareholders could avoid any tax liability. There are few problems in that area. Either the individual shareholders could elect to pay personal tax, or accept a special private company tax levy (similar to some United States provision).

Finally, the argument arises: where would the $500 million odd in lost Government revenue come from?

First from income tax paid by the present army of unemployed. Second by savings in areas of administration, and wasted costs in the taxation "industry". Third from indirect taxes to take up the slack; bearing in mind that company tax is only about 10 per cent of total income tax.

Cries of horror at indirect tax! But the consumer already pays company tax, because tax is a business cost.

Cooks mull over Penfolds' offer

THE two listed wine companies are performing well, a few weeks before announcement of preliminary results for the year ended June 30.

Talk of a possible offer for Cooks NZ Wine Co Ltd from Penfolds Wines (NZ) Ltd added spice to the companies' activities last week and gave Cooks' shareholders and the market something to mull over (pun intended).

When this article was written nothing had been confirmed or announced on a possible offer, which would put a combined group close to two other large wine companies (McWilliams and Corbans — both unlisted and both associated with substantial public companies) but still behind Montana, the industry leader and a subsidiary of the giant international liquor company, Seagrams.

Cooks shares started the year around $1.30 level for the 50c units but last week reached $1.75. Montana went from a low of $1.30 to a high of $1.60, before easing back to last week's $1.48.

Both companies issued their interim reports in the first quarter of the calendar year.

Cooks lifted net profit from $249,017 in the first half of the previous year to $521,916, after another nil tax provision. Sales were almost 50 per cent higher at $3.5 million.

The directors said (in usual cryptic directorial fashion) "given the continuation of current trading conditions a satisfactory profit is expected for the full year".

Montana had a less spectacular first half. Unaudited profit for the six months to December, 1979 was $2,518,000 compared with $2,293,000 in the corresponding period of the previous year.

The company incurred a tax liability of $300,000, as against nil in 1978-79.

Montana picked up a useful tax-free source of dividends from the winding up of a subsidiary company, Montana Holdings Ltd. An amount of $3,383,770 (the share premium account of the subsidiary) becomes available for tax free distribution. The interim dividend of 3 cents a share — an increase of 1 cent over the previous year — was paid from this source.

Cooks pays only one dividend a year, but the company appears to be in a good position to lift the payment again this year, assuming second half figures are somewhere near the first six months, on a proportionate basis.

The nature of the wine industry, and the peculiar development of both Cooks and Montana make it difficult (and dangerous) to make direct comparisons between the first and second half of each year.

Cooks, for example, earned $249,017 in the first six months of 1978-79, and brought in $153,000 in the period from January to June, 1979.

A conservative calculation of profit for this year, based on the first half figures, and taking approximately last year's second half as the amount to be added for the corresponding accounting period of 1979-80, gives the company about $1 million in net profit.

The earning rate on capital would be 28.7 cents (54.7 per cent). Last year's 6c a share dividend would be covered 4.78 times. (In 1979 the company

Continued on Page 13

Analysing annual accounts: BNZ Finance Ltd

BNZ Finance Ltd's accounts for the year to March 31, 1980 show solid growth in all sections of the company's business.

The profit and loss account is remarkably consistent in various percentage movements, until we come to the provision for taxation, and the resulting net profit.

The table gives comparative figures from the consolidated profit and loss account. Some entries are omitted in the interests of brevity, but they are only minor amounts. Therefore "total expenses" is more than the total of the figures included in the table.

Tax last year was 38.9 per cent of pre-tax profit, compared with 47.6 per cent in 1979.

The report gives no information on the low tax liability, or on its disproportionate growth relative to other items in the profit and loss account.

"Income from investments", listed in a note to the accounts, may provide the answer, but that is only a guess, in the absence of a formal explanation.

The company says the gross income of $14.9 million includes $9,415,000 of "income from investments" comprising: NZ Government securities and local authority stock, $1,419,000 (1979, $1,361,000); company shares and debentures, $6000 (nil); Other securities, $7,990,000 ($4,415,000). The note also says: "Income from investments includes interest and discounts earned, gains or losses on trading in securities, and notional gains or losses on securities held in portfolio as at March 31, 1980."

A reasonable proportion of that income may be free of tax in the company's hands, a supposition which would explain the discrepancy between the tax increase and movements in other parts of the profit and loss account.

That supposition may be incorrect, in which case the company has only itself to blame for failing to put the correct explanation in the report.

The rapid growth in borrowings is a feature of the balance sheet. Borrowings in the consolidated accounts were $100.1 million at March 31, compared with $79.3 million in the previous year, an increase of 26.2 per cent.

	1980	1979	Per cent change
	$000		
Gross Income	14,886	10,547	41.1
Less			
Financing Losses	472	335	40.1
Interest on debentures, deposits, "other"	11,060	7817	41.5
Other expenses	1168	803	45.2
Total Expenses	12,975	9187	41.2
Net Profit before Tax	1913	1360	40.1
Provision for Tax	745	648	15.0
Net Profit after Tax	1168	781	49.6

The parent company's accounts are the best indication of the gearing, because the money market activities in the consolidated balance sheet distort the relationship between shareholders funds and borrowings.

While the latter relationship is only a rough guide to gearing provisions under the terms of the company's trust deed (*which I have not examined*), it rose from 1:5.96 in 1979 to 1:7.52 last year.

The company may think I am harping on the gearing, since it has been mentioned in these columns several times this year, but the relationship is rising. Assuming a reasonable rise in parent company borrowings in the current term (subject to resistance on the part of people seeking money from the group), a cash issue will be the next stage in financing the operation.

There is nothing unusual in that prediction, because the nature of a finance company demands regular injections of new equity capital to preserve the gearing limits.

The question is when will it come? That is the unknown. I thought it would be announced with the preliminary report, but the report came and went without any hint of an issue.

Therefore it is time to "pull neck in" rather than stick it out. Existing and potential shareholders will have to make up their own minds.

The 1980 report shows the benefits from last year's "Hire Purchase Plan" "which enables the 232 Bank of New Zealand branches to act as agent for the company in respect of hire purchase financing".

Chairman George Chapman says: "Already the plan has been used by a significant number of customers who have been able to obtain their financial requirements to purchase motor vehicles, farm machinery, office and industrial plant and equipment".

Chapman says the introduction of the plan presented the first significant step in development of closer relationships with the Bank of New Zealand and its branch network.

The figures tell the story. The gross amount owing on loans went from $6.8 million to $11.6 million last year and gross receivables in leases and conditional purchase contracts increased 57.6 per cent to $29.4 million.

Income yet to mature closed the year at $8.8 million, compared with $4.3 million in 1979.

"Income yet to mature" is the base of a finance company's future profitability, so BNZ Finance is set for further solid profit growth in the next year or two.

Continued from Page 12

paid 2.5 cents — 5 per cent — from the share premium account, with that amount of the total dividend consequently being free of tax in shareholders' hands)

Assuming net profit approaches $1 million (although tax is unlikely to be paid), an offer from Penfolds, or any other prospective wooer, would need to be well above last week's market price, which represented a projected price/earnings multiple of 6.1.

According to Auckland press comment, Cooks lifted its grape harvest about 60 per cent in the latest vintage, and is expected to have good increases in future years, a prognostication which has to be discounted for the vagaries of the weather.

Montana now pays tax, but should still perform well in the foreseeable future. The company raised the interim dividend from 4 per cent (2c a share) to 6 per cent (3c a share) in respect of the six months to December 31, 1979.

The interim report says that the 1980 vintage was expected to be about 50 per cent higher in quantity than in 1979. The quality of that vintage is unknown, as is the case with Cooks. There was mucky weather in New Zealand's minimal summer this year, so quality could be affected.

Net profit last year went from 1978's $2,081,000 to $3,502,000. Given the incidence of taxation, it is difficult to make any reasonable assessment of profitability in the year which ends next week.

If we assume, say, $1 million (and that is nothing more than a guess) the company would earn 66.66 per cent (33.3c a share). A dividend of 14.5 per cent (7.25c, which takes account of the higher interim and a static final) would be covered 4.59 times.

The "stingy" accusation has been levelled at wine companies for their recent dividend policy, but critics may have difficulty realising that the companies had heavy start-up costs. A massive capital investment takes time to produce the appropriate level of profits.

A sizeable ploughback is understandable for some years, to strengthen reserves. New Zealand Steel is another company in a similar position, and has received similar criticism.

Assuming Montana earns about $4 million, the price/earnings multiple at $1.48 would be 4.48, a comparatively low figure. If profit is the same as last year ($3.5 million) due to a tax requirement, the p/e would be 5.1, still relatively modest.

The wine companies are doing well, although their costs (and the retail price of wine) will be up this year. And you know who has a Budget coming out soon which could affect them.

Note: The writer neither owns, nor has a beneficial interest in, Montana or Cooks shares.

O'Brien on business

Gadflies stop publishing corporate activities

JOHN and Lewis Gilbert have ceased publication of their *Annual Report of Stockholder Activities at Corporation Meetings* after 40 issues devoted to informing shareholders on what happens at American company annual meetings.

The brothers Gilbert (known in America as "corporate gadflies") will continue to stir at company meetings.

The last issue covers the same topics as earlier editions, from attendance at, and location of, the meeting to directors' activities and press reports.

And, as usual, there are amusing accounts of clashes between shareholders and directors.

At the 3M meeting a shareholder challenged the chair. The shareholder said he was sorry to be the only person who had any questions, to which the company secretary (who ran the meeting) replied; "the other people are happy". "I guess I would be too if I owed my soul to the company store", retorted the shareholder. (Shareholders could get bargains after the meeting at 3M's store).

Henry Ford II fared better in an exchange with a shareholder who criticised Ford's handling of Lee Iacocca's dismissal, and suggested the "error" would work to Chrysler's gain (Iacocca's new position). "You put your money in Chrysler and attend their meeting, okay", was Ford's answer, in reference to Chrysler's massive loss problems.

One shareholder went too far, requiring an admonition from Lewis Gilbert. A shareholder was upset at American Express' attempt to change an SEC rule.

Evelyn Davis told the chairman what would happen if the secretary continued his efforts: "If he tries it again I can assure you that the Hudson and the East River are not deep enough to hold his dead body." How would New Zealand directors handle that one?

Executive compensation is a contentious issue. Technical Tape discussed why the chairman received $312,255 in salary when he spent the year in gaol after conviction on 22 criminal counts related to violations of securities law, mail fraud, bank fraud and obstruction of justice.

He received the money under his employment contract, "but would not, however, be eligible to receive a bonus for the period his services were not available." (The chairman continued to maintain his innocence).

Twentieth Century-Fox paid company president, Alan Ladd Jr, $1,944,385, most of it under an incentive scheme, and said the scheme was devised to "retain extraordinary talents".

The Gilbert's comment: "We find it interesting to observe that, despite claims that incentive payments 'retain extraordinary talents', Mr Ladd left the company a few months later".

Loans to company officers for the purchase of company shares are a touchy subject. Heublein Corp guaranteed several million dollars in bank loans to officers for share buying.

The loans were supposed to be repaid in five years. They were extended to 10 years, and the company pays all interest above 6 per cent. The stock was bought at $49.52 in 1974 and last year stood at $27.50 on the New York Stock Exchange.

A shareholder said the company president still owed $945,000 of $1 million advanced, while the chairman reduced his loan from $1 million to $700,000.

Referring to the president's repayment record, she said: "not even gall, but chutzpah".

William Black, chairman, director, and founder of Chock Full O'Nuts, was accused of failing to attend the annual meeting since 1970, when he walked out.

In reply, management complained of being subjected to "disruption and abuse from a few individuals who own only a few shares of this company's stock".

Black added a written comment: "I would be very glad to attend our annual shareholders meeting if something were done about changing the rules so that a few 'gadflies' who have no experience in our line of business are not permitted to make a shambles of our meetings".

The number of individual directorships held (an interesting point in this country) surfaced at PepsiCo. The chairman of Exxon (the oil giant) was said to earn a "huge salary" as head of the oil company. "How would it be if I called into my company and said I wouldn't be in today, then went out and earned a few thousand dollars by attending the meeting of another company?".

Clifton Garvin, Exxon chairman, said his company approved. It wanted him to gain broader experience of running Exxon through exposure to the management of other corporations.

John Gilbert pointed out that Garvin was not the president (chief executive officer) of Exxon. "He's the chairman, and we know that once you're chairman you're on the way out".

The Gilberts include a section on press coverage. One intriguing comment was: "Jeffrey H Birnbaum was also at the J P Stevens meeting". Perhaps the Americans have problems similar to those in New Zealand.

The Gilberts often get slammed down. Votes on their proposals are regularly defeated by margins of many millions to a few hundred thousand.

Success can only be measured in a quote from the Chicago *Tribune*:

"Capitalism has rarely been accused of being a democratic institution, but there is one day a year when even the most corpulent captain of industry must pay lip service to the reality that his multimillion dollar domain is, in fact, owned by the people"..

Stock Exchange weekly review

FOR WEEK FRIDAY JUNE 13 TO THURSDAY JUNE 19.

	Last Sale	Week's High	Week's Low	Turnover
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Last Sale	Week's High	Week's Low	Turnover
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Last Sale	Week's High	Week's Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

No single answer to planning

IN his critique of the Government's liquid fuels policy (NBR), Dr Erich Geiringer prescribed CNG as the tonic to sustain the country's mobility. Energy Minister Bill Birch was invited to reply to the Geiringer analysis. He defends his policies in this article.

IN his three articles in *National Business Review*, Dr Geiringer over-simplifies the energy issues to argue that our major shortage is and will be petrol. He then uses numerous errors of fact and naive assumptions to conclude that only CNG offers us the "chance of reaching economic salvation".

His CNG prescription, moreover, with its emphasis on huge Government spending and a "pistol at the head" pace of conversion, carries strongly socialistic overtones and relegates motor vehicle owners to the back seat, as far as freedom of choice is concerned.

New Zealand imported 3.9 million tonnes of oil products last year, 0.7 million tonnes being used for international transport.

Of the 3.2 million tonnes which were consumed in New Zealand, only half was consumed as petrol, and only one-sixth would be replaced even as a result of CNG implementation on the massive scale proposed by Dr Geiringer.

Proper energy planning is a more complex matter, requiring more than just a single answer.

Dr Geiringer's proposal that we stop using oil as quickly as possible is a little inconsistent with his stress on a "least cost" solution to the energy problem. Maintaining personal mobility while not using oil in the short term would be an extremely expensive operation. In fact New Zealand has gone further than many countries to reduce consumption of oil.

For example, the demand restraint programme was in effect longer than that for many other countries.

The first of the five goals set out in the *Energy Strategy* document for New Zealand published last year is the reduction of dependence on imported oil, and the philosophy we are adopting is to achieve this goal at a reasonable pace.

Dr Geiringer criticises the costs and risks involved in continuing to explore for hydrocarbons in and around New Zealand, which will result in the spending, this year, of $60 million. What he doesn't say is that half of this investment is by the commercial oil companies, who are familiar with the risks involved and have assessed them carefully, along with the possible payoff.

From the national point of view, it appears to me self-evident that before we move substantially on to the higher-priced synthetic fuel alternatives, we should at least have an accurate understanding of the natural oil and gas reserves available to us in New Zealand.

The suggestion that we may shortly be forced to buy refined product rather than crude is not a new one, but though the export refineries schedule for construction in the Gulf States have been under discussion since the 1973-74 crisis, not one tonne of refined products has yet been produced.

It would be foolish in the extreme to defer any action on our own refinery expansion until the Gulf States have sorted out their arrangements.

It is worth noting that, in foreign exchange terms, the payback period for the expanded Marsden Point refinery is expected to be less than three years.

In the Government's future planning for transport fuels, CNG has an assured role to play. For certain vehicles, the commercial, national, and foreign exchange savings through using this fuel will be considerable.

But, there are limits to the number of vehicles which it is desirable, or even possible, to convert.

Only those vehicles which are based near natural gas, and do the bulk of their mileage within range of the natural gas pipeline, will be able to convert.

These vehicles will also need to be using sufficient fuel to justify the cost of converting. Thus smaller and low-usage cars will not find it economic to convert, and it would be an irresponsible use of our national resources to encourage them to make this substantial capital outlay, for a minimal saving in overseas funds.

In addition to these constraints, for some cars, and some people, the greater weight, reduced luggage space and slight power loss may lead to a decision against converting to CNG.

In the assessment of the national benefit, the savings in foreign exchange from reduced petroleum imports must be set against the costs in foreign exchange incurred in the purchase of CNG conversion kits.

It is incorrect to claim, as Dr Geiringer does, that the overseas content in the price of conversion kits is over half the total; it amounts to about $240 out of a total conversion cost of $105- — less than a quarter.

After taking into account all the above factors, plus our estimates of the rate at which vehicles could be converted (we cannot at present import vehicles with dual fuel capability), the Government has decided on a target which it believes to be realistic, namely that 30,000 vehicles will be converted before the end of 1981, and that a further 30,000 vehicles per year will be converted until 1985, by which time the 150,000 vehicle target should be reached.

Having made that commitment, it will be a relatively simple matter to review the target in the light of changing circumstances.

In terms of planning a strategy for increasing self-sufficiency in liquid fuels though, CNG conversion is just one of several projects already under way.

The synthetic petrol plant to be built using Mobil technology will provide an indigenous fuel to satisfy one-third of the gasoline demand of up to 500,000 vehicles by around 1986. Expansion of the Marsden refinery through the addition of a hydrocracker will enable the refinery to produce distillate to complement gasoline substitution brought about by synthetic gasoline, CNG, LPG and so on.

It will also be able to process different types of crude as they are available to us.

Although the product from the Petrocorp/Alberta Gas methanol plant is planned to be an exported chemical feedstock, it may, at some time in the future, open the way for us to shift our transport fuel base from hydrocarbons to alcohol fuels, a move which may be inevitable in the long-term.

In summary, while I can agree that CNG is the most certain and economic alternative fuel for those vehicles operating close to gas pipelines, it is only a part of the solution to New Zealand's future transport fuel demand.

Great progress has already been made in terms of establishing standards for CNG use, the setting up of refuelling stations, and the provision of incentives, particularly for operators of high-mileage vehicles, which must be a priority for conversion.

The rate of conversions to CNG will depend on the economic benefits perceived by the vehicle owners and the programme approved by the Government is a flexible one capable of being expanded as the situation demands.

This CNG programme is part of a broad policy to reduce New Zealand's dependence on imported oil, developed on the basis of the overall, long-term transport needs of this country.

I am satisfied that the present programme best fits these parameters.

Health cover for Polynesians draws criticism

by Warren Berryman

AN Auckland company, Capricorn International Credit Club Ltd, has launched a health insurance policy which it is pitching particularly to the Polynesian community.

But its selling methods, and the limited nature of the cover provided by the policy, have drawn some criticism from competitors.

And companies whose employees have been approached to participate in Capricorn's group insurance scheme are concerned at promotional techniques.

Insurance companies must post $100,000 bond to protect the public from default. But Capricorn is not an insurance company.

It is a $5000 capital private company owned by Darryl Malcolm Braddock and his wife. Braddock has been operating Capricorn for about a year.

Capricorn's scheme, billed as "the ultimate security", promises to pay medical bills and the insured party's accounts should income be lost through sickness or accident.

Braddock was unwilling to tell *NBR* how many members he had signed up. But he said his May 1981 target was 25,000 members.

Capricorn has been active in the Polynesian community, selling to individuals and through Polynesian church groups.

Capricorn charges individuals $208 for the first year and $52 a year for subsequent years.

On buying a Capricorn policy, the new member receives a booklet of 10 $10 premium rebate coupons to be filled in with the names of prospective buyers.

To qualify for the $10 rebate, the named friends of the new member must buy a policy as well. New members might also become Capricorn salesmen.

As with chain letters and pyramid selling, the system is likely to work only until everybody is selling to everybody else in a community.

Capricorn sells its insurance to individuals with a brochure which compares its rates with those of Southern Cross and Medicare.

When selling group schemes to companies, it has made the claim that its benefits cost only half those charged by the larger insurance companies.

Capricorn's competitors find these comparisons questionable, partly because they can't figure out Capricorn's calculations and/or dispute Capricorn's figures, but largely because Capricorn's policies are written in a way that limits the cover provided.

For $208, the individual member buys a 10-point cover.

Points one and two state that if the member is off work because of sickness or accident for 30 days or more, Capricorn will credit accounts up to a maximum of $500 for the first month and up to $400 a month for the following five months.

Capricorn says that this gives a maximum credit payment of $2600.

The first snag is the 30-day minimum. If you are back to work in 29 days, no claim can be lodged.

The average time in hospital for New Zealand patients is 3.9 days. Even with major surgery, one is likely to be back to work in less than a month.

The new member cannot make a claim until he has been a member for 13 weeks. Thus in the first year when he pays $208 for a year's membership, he is buying only nine months' cover.

Point three says: "If the member is in receipt of a subsidised income benefit, the amount paid will be a maximum of $1500." That differs from the $2600 mentioned in points one and two.

Most New Zealanders would qualify for a subsidised income of one sort or another.

Accident Compensation Commission payments, sickness benefits, or employers' wages, once received, would appear to bar the Capricorn member from receiving the full benefit even if he were off work for more than 30 days.

Point five of Capricorn's policy covers children's ear, eyes, nose and throat surgery up to $150 per operation.

$150 would not, in many cases, cover the full hospital bill for such treatment. It is far from full cover.

Nor is it a guarantee of payment of a percentage of such bills — for example, the 80 per cent offered by one of Capricorn's competitors.

The major limitation in the Capricorn policy comes in point eight. This states that the minimum single claim on a medical benefit must be $100 or more and an account cannot be carried over from one year to the next.

If the member has a medical bill of $99.99, he can't claim a cent from Capricorn. It must be $100 or more.

Medical insurance sources claim that about 73 per cent of all medicial claims come to less than $100.

If this is so, the $100 minimum significantly cuts Braddocks' risk of having to pay out claims from his premium pool.

Should a member need essential major surgery, he would probably go to a public hospital and have it done at Government expense. In such a case even major surgery would cost a member little or nothing.

Braddock was unwilling to be interviewed by the *National Business Review* beyond a short phone conversation. He said he was not pleased with the treatment *NBR* had given to one of his former ventures, the International Credit Insurance Company. (*NBR*, September 13, 1978).

Capricorn insurance to cover its own risk for the cover of sickness or accident referred to above or its $1000 death cover to pay funeral expenses has varied and may not now exist.

This risk was first underwritten by the Insurance Company of North America, which went off risk last March. The risk was then picked up by Monarch Insurance, which dropped it last month on instructions from its head office in the United States.

Capricorn went to Stewart Wrightson NZ Ltd, insurance brokers. After some consideration, Stewart Wrightson decided not to accept the risk.

Apparently Stewart Wrightson had some reservations about the wording in the first two points regarding paying the insured's party's accounts. If the insurance company paid out $500 for the first month and $400 for subsequeot months, and the insured party had receipts for ooly $200 a month or so, where did the remaining money go?

NBR questioned Braddock on this point. He said "the other $200 is accumulated as a cash accumulation for the person" but did not really answer the question of who holds the balance of the money paid out by the insurance company on the claim.

Braddock said he was "renegotiating our reinsurance and until that comes up we've still got a temporary cover with the Monarch Group".

"At the moment we are dealing with an outside broker but we have our own brokerage organisation which we will be utilising in the future", he said.

The name of this brokerage organisation, Braddock said, "was confidential". So, too, was the name of the brokerage organisation he was now dealing with.

Braddock said the other points in Capricorn's policy were covered by Capricorn itself, except a $100 redundancy cover.

This redundancy cover is available only to members who have been with Capricorn for a year or more. It is payable only if the member is made "involuntarily redundant" and in receipt of income below his normal take-home wage — overtime excluded.

If the member was getting redundancy pay, he could not claim. If the member qualified for a claim, Capricorn would pay up to $100 over two months to credit accounts.

For members in the Capricorn scheme a year or more, a hardship loan facility is offered at 8½ per cent interest. It is flat rate interest — or 16 per cent true.

Capricorn is offering group insurance schemes to companies.

Employees have been handed leaflets titled: "Who in the world pays your bills if you are unable? Capricorn will."

A list of questions below asks: "Does the Government of the day pay your bills if you cannot?"

It ends with the question: "Would you like your employer to provide a subsidised membership programme?"

This last question has annoyed some Auckland company managers.

A scheme put by Capricorn to one company involved weekly payments to Capricorn by the employee of $2.25 and by the employer of $2.50.

Capricorn's selling line claims its insurance is half the cost of other medical insurance with more than double the benefit value.

Braddock was unwilling to give to *NBR* data from which we could make a comparison.

The company that was canvassed was told: "Capricorn's fees cost less than half those of medical-only type benefits, the economies to both parties are very advantageous. During the first year, if the employer subsidises by $2 a week, then it will be showing great responsibility and leadership, which will gain greater respect from employees and increased productivity. Showing you *care* is vital for harmonious industrial relations . . ."

The sales pitch ended: "We believe sincerely that people are more important than money. How do you feel about your employees and their families? Are they worth $2 per week extra?"

Clutch of CLIOS for NZ

by Grev Wiggs

THERE were some jubilnnt executives in Enzed agencies when the CLIO awards were announced in Brussels.

The CLIO awards are generally regarded as the tops in international recognition of creativity in radio, television and cinema commercials, print advertising and packaging.

The Wellington office of D'Arcy-Macmanus & Masius won a CLIO in the packaging category. It designed a pack for Wilkinson Sword scissors which serves both as a carton for transport and as a display stand.

A Masius-produced Wilkinson Sword commercial was among the finalists in the TV section.

The popular "Dear John" commercial for BASF recording tape was awarded two CLIO's – best for direction and best in the personal gift category.

This commercial (singled out for mention in *Admark*, July 4, 1979) was produced by Whitaker Advertising which is a division of Colenso Communications. It was apparently a popular winner and was subsequently shown on the Mike Douglas TV show, syndicated through 168 stations in the United States.

As reported earlier, the commercial achieved significant sales success, producing a 125 per cent increase in BASF volume in the first year of the campaign.

Brown Christensen & Associates collected two CLIO's in the television cinema class for the best commercial in the home furnishing class and also the award for the best product demonstration.

The thirty-second TV commercial, for Sebel Integra chairs, was written and directed by Chris Christensen and produced at Peach Wyness. Christensen received the two gold CLIO's personally at Brussels.

Also there to receive a CLIO was Malcolm Beattie, account director of McHarman ABH International. A Lemon and Paeroa drink poster won this award for the best internation Print/Graphics design.

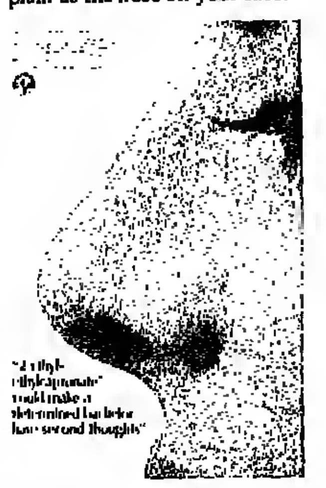
The agency also scored well with eight other finalists.

In the radio commercial category there were entries for General Foods, Bluebird and AHI Turoa Skifield; in cinema/films soundtrack, AHI Turoa Skifield; in trade print, AHI Flamestop; in trade literature, Henderson & Pollerd; in consumer print, Morrison Solar systems; and in magazine press, Klissers Bakeries.

Bob Harvey, chairman of McHarman ABH International, summed it up: "The finalist lists show that New Zealand agencies can produce work of an international calibre. But the ultimate test of any campaign is making sure that the cash registers are ringing."

Adnews roundup

IT's a curious fact that when creative people are searching for and wide for a good idea to illustrate the advertising concept, they often find the answer right in front of them – just as plain as the nose on your face.



And that is just what must have happened to the art director/visualiser/copywriter who created the ICI Propathene full page ad which appeared in our issue of June 2 with the headline "Now there's a Propathene plant right under your nose."

And that is just what must have happened to the art director/visualiser/copywriter at the German agency CGK Duesseldorf who designed the Henkel Cosmetics ad.

Now we know what you're thinking and we don't agree. Of the 4000 million-odd (some very odd) noses in the world, we don't think it all that unlikely that one of them should receive nasal notoriety in the nothem hemisphere and another in the antipodes.

Stockmarket sustained

IN remarking that it took almost seven years for the sharemarket index to overtake the previous peak set in July 1973, *Goldberg's Trends* says it did so with quiet and sustained support. It then adds significantly: "Marketing people can but wonder whether the stock market would have regained the ground lost after 1973 more quickly if there had been a bit of active promotion. We think it would have."

Recognising that sharebrokers are restricted to "card" advertising, the article contends there would have been nothing against the stock exchanges putting out promotional material backed by strategic advertising.

"The pushing of certain shares (by brokers) may boost turnovers, but we believe that better marketing of share investment as a whole could, long term, have been more profitable," says the article.

Commercial computers

AS distinct from the television channels, Radio New Zealand will have its own computer-based advertising sales system for the commercial network.

The Broadcasting Corporation has signed a consultancy agreement with Progeni of Lower Hutt to provide the software and representatives of this company and RNZ are currently investigating a comparable American system.

Advertising agencies can look forward to the practical benefit of the new services that will be available in less than a year's time.

It will be possible to punch up on screen such information as complete details of current contracts and advanced bookings, time availabilities at all stations, audience research data and masses of other related information.

"We look forward to the time when we can provide agencies with an up-dated, accurate, on-demand advertising information services," said Jim Robertson, RNZ director of sales and marketing.

Billion dollar multinational

RECEIPT of the BBDO annual report for 1979 underlines the multinational character of the large American-based agencies.

For the first time billings exceed a billion dollars but that impressive result gave the agency only seventh placing in the world.

In 1970, billings outside the United States were $25 million or 7 per cent of its business and the international operations lost money.

In 1979, billings outside the US reached $448 million, about 43 per cent of the total volume, while profits were over $1 million or 38 per cent of the whole.

Worldwide, BBDO now operates in 52 cities in 26 countries and is represented in New Zealand by Colenso Communications.

Court Theatre score

THE Court Theatre in Christchurch recently staged a review called "Till the boys come home."

It is about three Christchurch women and their experiences, funny and sad, during the war years: 1939-45.

There are about 40 songs of the period interpolated into the score but the hit of the show was a commercial jingle of the period, the Apple Song, which earned a special encore at each performance.

As the Court Theatre wished to print the words of the song in the programme for a forthcoming tour, it conducted a lengthy search for the owner of the rights.

It turned out to be Inglis Wright ad agency which willingly consented.

For the sake of the Musician's Union, let's hope this doesn't start a trend to recycling old jingles.

Small Business Agency experience opens eyes

by Rae Mazengarb

SECONDMENT to the Auckland branch of the DFC's Small Business Agency was a "shattering experience" for Auckland Technical Institute tutor John White.

Just five weeks of industrial refresher leave spent with the agency provided White with an insight into what he termed "the enormity of management ignorance and unprofessionalism which exists out there".

He saw small firms with good products, but whose management lacked either expertise, confidence or knowledge.

Individuals were unaware of the distinction between selling and marketing, grossly underutilised their capital equipment and/or had little idea about economies of scale, he said.

A tutor in marketing and economics with the institute, White said he went to the SBA with few pre-conceptions about the type of service it provided and the clients it saw.

He had a "gut feeling" that most larger firms were fairly well into exports, but figured lots of small firms required help getting into the field.

These small firms were attracted to the SBA because it was free, and friendly and approachable compared with the highly professional image of private consultant services, he said.

He regretted his own lack of accounting expertise for the task, but said he found it particularly important to be a "good all-rounder" to gain clients' confidence.

Previous work experience with Caltex East Africa Group, and the two years he spent with a firm of management consultants in his former homeland Britain, helped him to identify clients' problems.

Caltex was an "objective-oriented" company which worked a "grass-roots" budgeting system, he said.

"We would get a sales objective within a pre-determined budget," he told *National Business Review*.

The company looked at what motivated its own customers in the industrial field – their levels of activity and targets – and worked from there on the budget which would be required the following year.

Few small businesses had any conception of rational budgeting, he said.

An estimated 120,000 small businesses operating in New Zealand – or about 95 per cent of all businesses – employ some 30 per cent of the workforce and produce around 40 per cent of the annual GNP.

They comprise the manufacturing, distributive and servicing areas.

But most managers have no formal training, manage on an *ad hoc* basis, do not understand cash flows or finance particulars, fail to plan or set objectives for their businesses, White said.

The SBA's role is to attempt to raise the degree of professionalism in business, thereby reducing risks and increasing productivity – "it's an educational agency", White said.

Commenting on his brief experience with the agency, White said the SBA was giving high quality service, but was lacking in resources.

In addition to the economic role, the SBA fulfills a social role, he reported back to the Development Finance Corporation, SBA's parent body.

"Counselling extends almost into the area of social welfare when, for example, a client – in perhaps the 50s or 60s seeking financial advice – elicits from the SBA counsellor, 'Well, first of all, what are your personal goals?' After that we can discuss financial and management options which fit in with these basic goals.

"The inability of counsellors to avoid this social role if they are to function effectively as small business advisers came as a major surprise to me," White said.

"It creates a burden of moral responsibility, requires input of nervous energy, as well as a degree of general worldliness of which I had no concept prior to my working visit to the SBA."

Because his arrival at the Auckland office of SBA coincided with a shortage of staff and a peak demand for services, White found himself conducting interviews initially with an experienced counsellor, but soon was unaided.

Reporting on his first-hand experience, White said clients' problems fell chiefly into the following categories:

- Finance;
- Organisational/finance problems;
- Marketing problems in the local market;
- Marketing problems in export markets;
- The "should I go into business" problem.

Finding the finance for capital expansion projects, plant and equipment is a major problem for small businesses.

"Some clients appeared unaware that ill-considered or improper expansion could in fact induce the demise of the business due to the cash flow effects," he said.

One company – highly sophisticated in a product technology and marketing sense – had traditionally financed plant development from working capital and profits, not from borrowings.

As a result, over the years a steady reduction in effective working capital developed and an artificially low profit picture had emerged.

The company was faced with an urgent need for extra funds to finance new materials and products for both export and domestic markets.

At the time of interview, the company had been turned down by conventional finance institutions.

"The problem was compounded by the reluctance of the proprietor to utilise his freehold house and other assets as security against bank loans," White said, adding that the case was typical of many.

And the client's ignorance of money matters was compounded by the lack of initiative on the part of his accountants, who failed to advise.

"... a modern firm of accountants should surely offer more than historical records," White said. "They should offer 'preventive medicine' in the form of a simple system of management accounting which would identify cost/profit centres and give the owner a means to control his business."

That client was referred to an accountant offering the "desired" service.

White observed that finance problems frequently became intermingled with organisation and credit problems, and inflation was a compounding factor.

Many firms are tempted to "borrow" by no longer paying creditors promptly, he said. "For many firms, attempted solvency is achieved through exporting."

Organisational problems included the necessity or ability to buy out a partner.

"Partnerships all too often are associated with serious friction, the suspicion (knowledge) that one partner is not pulling his weight..."

One client was being persistently robbed by the manager of an outlying factory due to inadequate control and had suffered financial problems as a result.

The counsellor's role, in such situations was to educate the client in basic finance, stock control, personnel management and so on, White said.

A basic failing was a failure to distinguish between selling and marketing.

As White pointed out, marketing starts with awareness of the customer's needs, recognising them, and designing the product to suit. In addition the most highly cost-effective distribution system must be devised to effectively tap the market segments of greatest potential.

Many clients, hoping to tap export markets, were unaware that prices are set overseas by competitive market forces; they were unaware of facilities such as those available through the trade commissioners' offices overseas or the Trade and Industry Department, White reported.

Many were doomed to failure from the beginning because they were offering the wrong products (for instance, the lamp manufacturer who employed one person to manually spray paint lamps – one at a time. His plant was underutilised, but more importantly, the products themselves would not be competitive with those made overseas by batch-process).

Most clients were advised that the first step into the export market was a market survey to determine general retail pricing levels, tariff or duty at point of entry, requirements and cost of packing, export incentives and their influence on price and cost, and the acceptability of the product on export markets.

Some clients had developed highly sophisticated export operations, exporting products of their own, or functioning as export agents "selling on behalf of", or purchasing stock from the New Zealand manufacturer for which the export marketing organisation made the final sale, took the risk and so on.

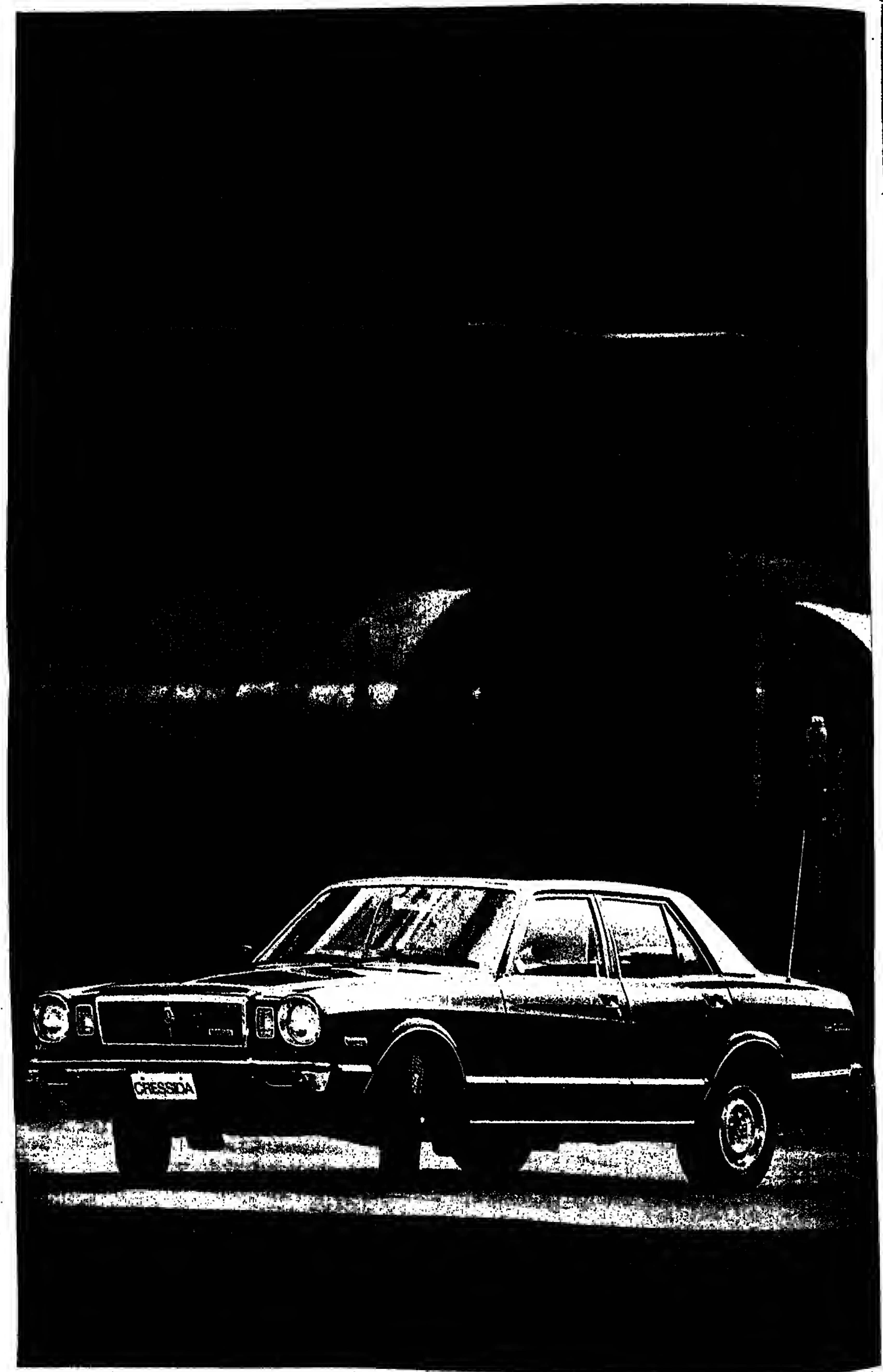
But in one such case, White saw a bitter dispute over the apportioning of export incentives – usually awarded to the party bearing the risk.

"The counsellor was obliged to preside over a situation in which greed and lack of communication featured strongly," he said.

White's physical follow-up calls on established clients indicated a high degree of satisfaction with the SBA service, he said.

"In extreme cases a feeling of hopeless despair and an inability to cope had been removed," he found.

For the counsellors themselves, White said the job called for a wide general experience of industry, trade, business, which could only be achieved over a number of years working.



Cressida.

Toyota announces a rare car.

Cressida combines technology that is uniquely Toyota, with luxury that success deserves.

Here is more sheer comfort and prestige than one might reasonably expect.

A quick two litre engine gives you thrust without thirst – a very responsible consideration for thinking owners.

The instrument display includes, amongst other uncommon delights, a quartz crystal clock and fully integrated cassette stereo.

The front seats are infinitely adjustable, – and the driver's seat embodies a lumbar support zone which you adjust to gently ease lower back fatigue.

And because Toyota make the Cressida, all this luxury is on top of quality.

Not instead.

Cressida.

At the moment 5 speed manual $12,000 and automatic $12,500.

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Ahead in the 80's.

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14635

Freezing works' board fears takeover in melting pot

SOUTHLAND Frozen Meat Company directors and shareholders are losing sleep – and not over industrial stoppages, killing rates or export schedules.

The spectre is a healthy Dunedin-based meat exporting co-operative, Primary Producers' Co-operative Society. SFM bosses fear a takeover.

The PPCS holds nearly 10 per cent of the booming Southland company.

Before the confirmation of the SFM centennial issue the other day a parcel of 364,800 shares was traded at $2.40 a share (nearly a $90,000 investment). This has prompted speculation that PPCS is again on the move. Some sources in Southland suggest that the export co-operative is aiming for a 20 per cent holding.

PPCS chairman T McCristell confirmed from Balclutha that a "fair-sized" parcel had been bought recently. But he was not sure of the exact size of that parcel.

Many felt a showdown would come at SFM's recent extraordinary general meeting to confirm the company's centenial bonus issue.

PPCS's three Southland directors were present, but the flooding in Otago prevented managing director I H Jenkinson and McCristell from attending.

The directors present insisted that nothing sinister should be read into their attendance – they were there only as shareholders – but the atmosphere of expectancy could not be denied.

SFM shareholders and directors felt that the PPCS men would attempt to influence the proceedings on the bonus issue.

Speculation about the identity of a "mystery buyer" had continued since 1978, when a nominee company was buying large parcels of SFM shares.

Even that far back the company carried out intensive investigations to try to establish the buyer's identity.

By March this year the nominees had spent more than $1 million buying 554,722 shares.

As SFM company chairman Sir Alan Gilkinson noted at the annual meeting in March: "It is disturbing to note, however, that in 1979 there were 15 shareholders with holdings of over 100,000 shares, owning 20.52 per cent of the issued capital, compared with 6 and 10.89 per cent in the previous year.

"This fact has been highlighted recently with the disclosure that a nominee or group of nominees has been buying extensively into your company.

"Despite endeavours to ascertain the identity of these buyers, as provided for in the company's articles of association and Stock Exchange regulations, your directors have been unable to ascertain the identity or intentions of the buyers."

At that time, the company's articles of association were brought into line with stock exchange policy that any buyer owning more than 10 per cent of issued capital in a company must reveal his identity.

SFM is an attractive proposition. For the year to last October, its consolidated net profit of $4.013 million was up $897,000 on the previous year.

The second largest result in the company's history (29.04 per cent above the 1978 level), it was mainly achieved through substantial tax credits and increased earnings by associated companies – Southland Freight Haulage, leather clothing exporters Knight Tailors and the Cron Keys coal mine at Waimumu.

After announcement of the bonus issue SFM shares rocketed on the stock exchange with a parcel of 10,000 going at $2.70 a share at the peak of buying.

SFM's centennial announcements included:

- A centennial tax-free bonus issue of ordinary shares in the ration of one bonus share for every 10 shares held;
- A cash issue, which will follow the bonus issue, on the basis of one ordinary share for every four shares held at that time;
- Alteration of the company's articles of association to allow farmer-suppliers to elect to receive a rebate instead of a dividend;
- A formal step in applying to the High Court for approval of tax-free distributions to shareholders from the company's share premium account.

The increase in the company's nominal capital from $20 million to $30 million may be seen as a defensive move against future aggression from PPCS.

PPCS announced that it was the "mystery buyer" early last month at the annual conference of the meat and wool section of the Federated Farmers (Southland).

The company obtained this strategic holding in SFM to ensure that SFM maintains its position as a major independent New Zealand-owned meat processor and exporter, Jenkinson told that conference. On the face of it, a declaration of friendly intentions.

Just six weeks before the announcement, Jenkinson had stated that his company held only about 1200 shares. At that time he told the press it was flattering for anyone to think that PPCS could be the "mystery buyer".

At any rate, PPCS bosses have made no secret of the fact they would like a seat on the SFM board.

McCristell said from Balclutha the other day: "If we can get a representative on the SFM board through having sufficient interest in the company, and I have not heard any opposition to that possibility, then it must be to the benefit of everybody."

But he denied any PPCS intentions to launch a takeover bid for the Southland Freezing company: "We have never had any thought of anything like that. Nobody on the board of SFM has expressed these fears to us."

Still, it is hardly likely that men in the position of the SFM directors would be expressing their worst-felt fears to their potential industrial enemies.

PPCS is a Southland owned-and-operated meat, wool and pelt exporting co-operative, with access to all South Island works.

It started export marketing in 1947 and now has a subsidiary company in London, Defiance Meats (NZ) Ltd with a fully owned-subsidiary meat packing house in Dunedin, Defiance Processors.

As New Zealand's largest wholly-owned lamb exporter, PPCS export sales this year are expected to be $120 million.

The co-operative supplies markets in North and South America, Africa, India, Japan, Korea, Norway, Switzerland, Austria, Portugal, all EEC countries not controlled by the Meat Board and countries in the Pacific Basin, the Near East, Middle East and the Mediterranean.

A policy of having a maximum market spread to negate the effects of specific market problems has proven successful. Livestock handled last year increased by 38 per cent. An increase of a further 30 per cent is expected this year.

Led by Sir Alan, the SFM directors have been very quiet in public regarding their fears.

But repeated PPCS claims that its intentions are friendly seem unlikely to be given long-term credence in the SFM boardroom.

PPCS would "buy or not buy" depending on how it felt, Jenkinson said from Dunedin after the adoption of the SFM bonus issue. He was responding to the suggestion that PPCS was again active buying SFM shares.

"We have bought shares in more than one freezing company in the past week," he said.

Asked if SFM could reasonably trust the motives of the export co-operative, Jenkinson replied: "Who can trust who these days?"

Bureau moves into networking on IBM 8100s

by Stephen Bell

FIVE IBM 8100 distributed processing systems – the first in New Zealand – will allow bureau Computer Services Ltd to take its users into the fourth phase of computer use – networking – according to CSL managing director Denis Trotman.

The typical evolution of an organisation's computer use, he said, took it from an in-house accounting machine to use of a computer bureau. With growth many organisations turned away from the bureau solution, in favour of their own minicomputer installed at head office.

The fourth stage, Trotman said, came when the organisation started to look at the possibility of introducing a communication network and giving branch offices on-line access to the head office computer.

Trotman wants to win companies back to the bureau route, by offering them their minicomputer programs transferred on to an 8100 in CSL's network. Branch office terminals could hook into the network from anywhere in the country. As back-up for large-scale processing, the bureau could offer its Itel AS/3-5 IBM-compatible mainframe at the centre of the network.

The 8100s – CSL has plans for 20 machines eventually – could well be housed on client's premises, but would belong to CSL and be operated by CSL staff. Use of one machine could, in fact, be split among several clients.

One of the chief attractions of the 8100 for CSL was its ability to be controlled from the central site machine, Trotman said. This meant a considerable saving in staff numbers, at a time when experienced staff were increasingly hard to get. A large number of extra staff, however will have to be recruited for the 8100 network effort.

The ability to control the machines centrally was the true distinguishing feature of "distributed processing", he said. What so many network operators claimed as distributed processing would be better described as "dispersed processing".

CSL has only now decided to go into on-line services in a big way, having had only a few on-line clients in the past, hooked directly into the Itel machine.

In selecting equipment, one of the prime considerations had been the hardware's likelihood to survive in the same form and continue to be supported by its manufacturer. On this basis, IBM 3270-type terminals were chosen, and the minis had to be selected to fit in with this philosophy.

This, Trotman said, left a choice of the IBM 8100 – at that time unannounced here – or the Raytheon PTS 1200.

The 8100 is one of the few IBM products which has remained unreleased here for some time after the United States release.

There were insufficient prospects here to merit setting up a sales and support apparatus, said IBM earlier this year.

CSL's current and projected orders were obviously one of the chief reasons, if not *the* reason, why IBM has released it in New Zealand now.

The terminal which will actually be used is not the 3270, but IBM's less expensive and more sophisticated 8775, designed specifically for use with the 8100.

CSL's strategy for winning minicomputer customers back to the bureau makes an interesting contrast to the prevailing strategy for bureaux to develop a sideline in minicomputer sales.

The first 8100 network client is expected to sign up very soon – possibly by the end of the month.

The first of the 8100s is scheduled to arrive in September.

Enhancement rather than replacement?

WHEN is a change of computer equipment a "replacement", and when is it an "enhancement"? The question is a pertinent one now that the universities have finally been advised of the amount of their Government grant for extra equipment and staff.

Out of the total grant of $5.4 million to the country's seven universities, $5.125 million has been allocated for equipment, primarily for "replacement" of the universities' five Burroughs 6700 mainframes over a period of five years.

The Education Department described the 6700s, more than 10 years old, as "obsolete" and "worn out".

But it would plainly be absurd to replace the machines with others giving exactly the same performance, even if such could be found. What will go in will doubtless be an enhancement of the president equipment.

If any money is left from the grant after these purchases, the universities will be allowed to use it to buy additional equipment. The most urgent need in this area is likely to be small interactive systems for teaching purposes.

The request for tender for the Burroughs replacements will be a single request, rather than separate ones for each machine.

It is felt that suppliers will be more inclined to bid for a large contract than for five small ones, and the universities, too, will probably derive some advantage from "bulk" ordering.

Once the supplier or suppliers have been selected, an appropriate timetable will have to be arranged for installation of the machines over the five-year period, in a way which most closely matches the universities' needs.

Then, assuming there is any money left, the whole procedure of identifying needs, tailoring them to accord with funds, tendering selection and scheduling delivery will presumably have to be gone through again with respect to the additional equipment.

When the equipment budget is taken from the total it leaves $275,000 which will be allocated to recruiting 21 extra staff, again over the five-year period.

In the face of staff cuts being made in other departments, the computing people have argued successfully that with more use of the computer by people with little or no DP knowledge, the extra people – systems analysts, programmers and the like – are needed to act as an "interface" between these people and the machine.

The $500,000 or so which has been given to the technical colleges will be directed to the leasing of minicomputer systems for teaching, and will be made available over three years.

Burgeoning bureaucracy threatens meat industry

by Warren Berryman

FARMER pressure to delicence the meat processing industry in order to introduce an element of cost competition, should soon result in amendments to the Meat Act. Warren Berryman has found that the freezing companies are also facing a growing army of bureaucrats who are dictating in cost-related terms.

BUREAUCRACY has been the greatest growth area in the country's meat industry over the past decade.

Industry sources say burgeoning bureaucracy, is a prime reason for diminishing return on capital, industrial stoppages, and slow growth in the country's most vital export industry.

Meat production — which earns 38 per cent of New Zealand's overseas exchange — has remained static at about 1.1 million tonnes over the last 10 years.

The number of Government meat inspectors and veterinarians has doubled over the same period.

Some meat companies claim that between one-third and one-half of industrial stoppages in their plants are caused by the growing army of meat inspectors — not as the public tends to believe, by the meat workers union.

Meat companies also complain of the capital costs involved in meeting the meat inspectors' growing list of demands, such as providing separate carpeted dining rooms so they do not have to mingle with the meat workers.

Meat company executives won't complain publicly. If they did, a meat inspector could hurt them financially in retribution and concerted bureaucratic action would virtually wreck their business.

But, off the record, meat company executives complain that the growth in numbers of the powerful meat inspectors has not been matched by a suitable structure within the Ministry of Agriculture and Fisheries to manage them.

They describe the management system as chaos.

Hygiene regulations have placed a heavy financial burden on the industry.

In 1971 the industry was given 10 years to comply with standards set by the EEC and other countries, or be forced out of those markets.

The New Zealand Freezing Companies Association Inc estimates the industry will spend $382 million between 1971 and 1981 meeting hygiene requirements and only $268 million on development.

Meat industry executives agree that there is a need for an independent body to monitor hygiene, otherwise overseas governments would not accept our product.

But they say the bureaucracy that was established to monitor the ends — the wholesome quality of the meat — has become increasingly involved in dictating the means, telling experienced industry men how to do their jobs and planners how to build new meat works.

To some extent hygiene standards have been imposed by overseas governments.

Often the requirements for imported meat are higher than for locally produced meat in our export markets.

In some cases, hygiene controls are seen as little more than a disguised protectionist measure against New Zealand.

But public servants have an influential say in determining future hygiene requirements.

The Ministry of Agriculture and Fisheries acts as secretariat of a supernational body pushing for a common standard known as the codex alimentarius.

In these negotiations, Government servant talks to Government servant.

Meat industry people who have to foot the bill immediately for any demand for "improved" standards, are involved only as onlookers.

Meat consumers and farmers who foot the bill ultimately don't get a look in.

Every extra regulation, every clause, every volume of regulatory interpretation, requires additional bureaucrats to write them, and further bureaucrats to make sure they are carried out to the letter.

And, insofar as senior Government servants tend to measure their power and prestige in terms of their numbers of subordinates, the process is likely to be self-perpetuating.

The Americans have a resident review officer stationed in New Zealand to make sure plants on the American export list are up to standard.

When this review officer visits a plant, he talks with the Government veterinarian — not management.

The American's views are passed on to management through the veterinarian. Because management was not present to hear it straight from the horse's mouth, it fears the American's demands might be coloured by the vet's personal interpretation.

Communications between plant managers and veterinarians has not been helped by the number of recent immigrants employed as Government vets whose command of English is somewhat limited.

Meat company employees measure their worth in output or profits. And herein lies the rub.

Meat inspectors and vets have the power to condemn or downgrade carcasses. The ministry has the power to tell a meat company how to build its plant.

Cost is of prime consideration to the meat companies and the farmers they claim to serve.

But company executives say the bureaucrats typically comment: "We're not interested in cost, only in applying the regulations."

Production chains . . . public servants swell ranks.

"Overheads" slice away freezing firm returns

MEAT company executives who have travelled or worked overseas claim our regulations are tougher than those in the countries to which we export. And, they say, our bureaucratic overheads are higher.

In the United States, for example, they say one meat inspector would be employed in a plant of a size that would employ four meat inspectors in New Zealand.

One pig meat works which kills only 300 animals a day employs 28 people. Six are butchers watched over by six meat inspectors.

One meat works executive said that when he entered the industry 30 years ago, his plant had six meat inspectors. Now there are 64.

The increased number of inspectors is not matched by an equivalent increase in output.

Another meat works in Hawkes Bay was designed 18 months ago for a total staff of 451, including 22 meat inspectors.

Plans now call for a staff of 435, including 26 meat inspectors.

The movement to more chiefs and fewer Indians is spreading throughout the industry.

Some years back, when the industry paid for Government services rendered through a levy, the cost of this bureaucratic overhead was easier to monitor than now.

The levy was dropped. The true costs are lost in that amorphous mass of Government expenditure.

Meat inspectors are making expensive demands on the companies.

One recently-built meat works included a carpeted dining room for the men. Ministry of Agriculture and Fisheries' staff wanted a separate room to eat in, so the company partitioned an area to keep them separate from the workers.

Then the meat inspectors demanded, and got, a separate building to eat in at the company's expense.

In another works a separate dining room was built for the meat inspectors. But the inspectors didn't use it except to hang their raincoats in.

Companies complain that the inspectors are becoming more militant and the list of their demands is growing.

Meat company executives have no control over the inspectors. The ministry pays their salary. The companies provide them with separate facilities at their own expense. And the inspectors look to the PSA in industrial relations matters.

Meat inspectors can close a plant down with industrial action if their demands are not met to the letter. The veterinarians can take a works off the export list.

"We have to handle these jokers with kid gloves," said one works manager, "A bloody-minded vet or meat inspector can make our life impossible."

The Ministry of Agriculture and Fisheries' meat division head, John McNab agrees there are problems with the meat inspectorate acting unilaterally. But he dumps a large portion of the blame back on the industry's plate.

"Company management won't control their own operations and they use the MAF as a whipping boy," McNab said.

Most stoppages, he said, were caused by poor management control.

As to the MAF regulating the means rather than the end product, McNab said the construction of new works was going to be controlled by the MAF. This construction role for the MAF was set by overseas countries, he said.

Some meat industry executives said the by-the-book approach to building new works ruled out innovation by the industry.

McNab disputed this, saying much of the industry was "stuck in the mire."

"We are the innovative force, not the industry," he said.

McNab pointed to the Hastings-based Dawn Meat Company as a progressive element within the industry.

Dawn Meat's managing director, Graham Lowe, working on modular concepts from the United States, recently built new New Zealand works for less than half the price of works of comparable capacity.

Lowe acknowledges that the MAF did not stand in his way when he introduced these cost-efficient new ideas to the New Zealand industry.

Dawn Meat's drive to build new works, and give the farmers better profits from reduced killing charges, has been thwarted only by his opposition within the industry which has used the licensing system to prevent him from competing.

The "stuck in the mire" elements in the meat industry mentioned by McNab have only the MAF chivving them on to improve hygiene control that presently leaves much to be desired.

William Maugham, senior lecturer in agricultural economics at Massey University, estimates that more than 50 per cent of the plants in New Zealand cannot reduce the contamination rate for lambs to below 15 per cent of the kill.

Companies that think they can do better are not permitted to try. Competition is prohibited by the licensing system.

Meanwhile, according to Freezing Companies Associations figures, killing and processing charges in North Island works have increased from $1.80 a head to $6.31 a head in the past seven years.

While the cost to the farmer has more than tripled, freezing companies don't appear to be profiting greatly from the higher charges.

Reserve Bank figures show return on assets and returns on total resources to be lower in the meat-processing industry than the all-New Zealand company average.

New Zealand's biggest export industry — and our oldest — is not looking nearly as bright or profitable as those import licence protected "inefficient" manufacturing industries Government claims are being rationalised out of existence.

Special feature

Meat inspectors' role in unrest

A MANAGEMENT consultant with wide experience in the freezing industry has summed up the hygiene situation: "The public servants setting the standards have no commercial interest in the industry — worse, they work under no hierarchal structure of management. There is no defined chain of command."

Meat company executives and meat workers alike describe the army of meat inspectors as "tin hitlers" or "the chosen race".

Friction between meat workers on the chain and meat inspectors contributes to a large and growing portion of industrial stoppages.

Many reasons are given for this friction. One if their youth.

"The guys on the chain are working hard alongside four meat inspectors leaning, hands in pockets, on the rail," says one company executive.

"The meat workers have been doing their jobs for a long time. They resent being told how to do their job by some young pup".

Friction between meat workers on the chain is often sorted out quickly in manly fashion with fists.

Friction between meat workers and bureaucrats leads to PSA involvement, and long and niggly industrial stoppages

Inspection . . . "niggly demands" may defeat boredom.

such as that which occured in the Whakatu works last February.

The Government veterinarian in the works is ostensibly the senior man on the job. And by and large the veterinarians are respected by workers and management.

But the veterinarians do not fill a top role in the management hierarchy.

While the regulations are uniform, conditions at works throughout the country differ widely.

The veterinarians do not have the power to interpret the regulations with flexibility. They must go through the regional veterinarians and on to Wellington for a "by the book" ruling in a time-consuming bureaucratic process.

When a dispute involves meat inspectors, they do not deal through the veterinarian as the next link in a chain of command. They go to the senior meat inspector in the plant, then to the PSA in Wellington.

The Ministry of Agriculture and Fisheries, which pays the meat inspectors' wages, tends to pass the buck on industrial relations matters to the meat companies — which have no control over the inspectors working under their roofs.

One exasperated meat company executive summed up the situation: "The inspectors are under the PSA, but the only people they can take it out on is us . . . sometimes it is easier to give in to unreasonable demands than to screw up production."

Meat industry sources and management consultants cite the three separate management structures — one for company employees, one for veterinarians, and another for meat inspectors — as a prime reason for poor industrial relations in the industry.

The meat inspectors' job is repetitious and boring. For the meat worker on the chain, it is seven lambs a minute, day in and day out.

The meat worker is busy working up a sweat and can take some satisfaction in throughput through the chain.

The meat inspector has nothing to do except watch the process, pass, downgrade, reject, or detain carcasses from the moving chain.

As more and more meat inspectors are employed to inspect a constant quantity of meat, the meat inspector's hands become even more idle.

The nature of the job makes it hard to attract and retrain men of high calibre in the job, said one management consultant.

The total work environment is fertile ground for industrial trouble-making and niggly demands to defeat boredom, he pointed out.

Bureaucrats play rigorous "snakes and ladders"

VETERINARIANS in the meat Industry have moved in recent years from a position of semi-autonomy and flexible decision-making to a by-the-book approach, with the chain of command extending through the regional vet to Wellington.

This has been accompanied by a growing number of interpretive manuals setting out every detail of works design, construction, and operation.

The attenuated chain of command slows decision-making, industry sources complain.

Meat industry executives also complain that the meat regulations passed by Parliament were intended only to make sure the meat was wholesome, but that the Ministry of Agriculture and Fisheries was now telling the industry how to build new plants, and setting down approved routines and procedures.

Veterinarians . . . part of the ever-expanding Government imposition of rule books.

Industry sources say meat companies are often presented with demands for plant alterations or additions not covered by regulations.

Because works veterinarians are reluctant to use their own initiative in interpreting the regulations, plant managers are forced to take a day or two off work to fly to Wellington to sort out problems.

The ministry has produced a huge chart (about 1 metre by 1.3 metres) on new meat works construction and design dubbed "the snakes and ladders game" by meat company executives.

Looking very much like a monopoly board, this chart outlines the myriad procedural steps involved in gaining approval for a new works.

The chart has little arrows and boxes showing how the game must be played. Should one of the bureaucrats in the long list of approvers be sick or out of the country, the meat company "goes to jail" until the necessary signature can be obtained.

If a machine, such as the ministry's microfilm unit, breaks down (as it did) the company is held up until it is fixed.

Plans for a recently constructed works were held up for six months by the ministry, during which time the plant was built without approval.

Industry sources say they cannot afford to sit and watch inflation escalate building costs while the bureaucrats play snakes and ladders.

Said one company executive: "The industry can't afford to work at the public servant's pace. If we did we'd go bankrupt.

"Our big problem is not hygiene, but people with no responsibility for profit wanting the right to run the industry," he said.

Resource development

The great New Zealand electrification programme

by John Peet

WHAT are the assumptions underlying the Government's plans to use "surplus" electricity for South Island electricity-intensive industries such as aluminium smelters? Some interesting attitudes surfaced recently. In the replies given by Energy Minister Bill Birch and Trade and Industry Minister Lance Adams-Schneider to questions put by John Peet through the pages of the *Christchurch Press* last month.

A SECOND aluminium smelter in the South Island would be "paying its full share for power in the long term", according to Energy Minister Bill Birch.

Birch stated that the starting point in negotiations on power pricing to prospective large-scale users was the bulk supply tariff less 25 per cent.

As we have been told on many occasions, the bulk tariff purports to reflect the full costs of generation (together with a capital works contribution) so the 25 per cent reduction must of itself be regarded as a direct subsidy.

The 25 per cent to South Island industry is a discount on the retail price, not the bulk tariff, and serves at best to restore relativity with similar North Island retail tariffs.

Since Birch hopes "... that by the end of the South Island power surplus period the rate would be back close to the bulk tariff of about 1.9c a unit", it appears that the full price would not be charged for several years. This could also be interpreted as a subsidy, its magnitude depending partly on the way in which the "power surplus period" is determined.

The bulk tariff figure of 1.9c is also a most misleading basis for negotiations, if the national benefit is to be the principal criterion for judging the worth of a proposal. This is because it is Government policy to require capital investments in electricity generation to pay 10 per cent interest on all loan moneys.

The changeover from earlier, lower-interest rates has been gradual, over the last four years, and will largely be complete in another year or two. Without any other change in New Zealand Electricity Division finances, the increase from the current average interest rate of 8.5 per cent to a rate of 10 per cent will change the bulk tariff to about 2.2c within a year or two.

In any national benefit-cost calculation, however, the least that should be charged is the actual Goverment rate for borrowing, which is now about 13 per cent. On the same basis as the previous calculation, a rate of 13 per cent means that the correct bulk tariff basis for current negotiations should be about 2.9c at least, not 1.9c.

Most economists, however, including those in Treasury, believe that a discount rate of 10 per cent above the inflation rate is more appropriate for testing the economics of investment proposals of this type, and normally require that they at least break even, at that rate.

Yet another factor that must be taken into account in evaluating the bulk tariff is that by the time any significant new electricity-intensive industrial demand can be bought into production (about three years for a Tiwai Point third potline, more for a completely new smelter), roughly another billion dollars will have been spent on capital works by the NZE, primarily for the purpose of supplying power for these industries by the time the "surplus" has gone.

This debt will, if charged at 13 per cent, result in a further increase in the bulk tariff of about 4c, which is more than double the figure of 1.9c quoted by Birch.

It is worth noting that the managing director of Comalco Ltd (*The Press*, May 8) considers that "... the final price negotiated with the Government by Comalco for the South Island surplus power would have to be lower than 1.9c a unit.").

In reality, while the arithmetic involved in these calculations is simple, it cannot be done properly without information on the "correct" interest rates to be used.

In my earlier questions, I pressed for a definition of the term "national interest", and a clarification of the ground rules for economic assessment.

Neither Birch nor Adams-Schneider has given these data, which are surely fundamental to the analysis of national investment proposals, whether they be in electricity or eggs, aluminium or automobiles.

Simply to indicate the Government's intention to use the surplus "at good rates of return" is unconvincing, unless supported by a lot more information than the Ministers have made available.

In the context of overseas-owned electricity-intensive industries, for example, where the multinational vultures are hovering over the Beehive, it is true that the sale of surplus power will result in "... reduced costs to all consumers", but this is an extremely short-sighted argument:

The surplus itself will probably last for a while (although the very existence of a real surplus is currently being questioned seriously), but electricity-intensive industries such as aluminium smelters are likely to last 10 times as long as the surplus.

The Government's policy to introduce such new industries has been used as a justification for limiting indigenous consumption (particularly by the domestic sector) and, more importantly, as an excuse for constructing yet more power stations, which could in no way be justified by even the most optimistic predicted "natural" increase in demand of New Zealand industry over the next decade or two.

So, for Birch to claim that the sale of the surplus will result in reduced costs to all consumers completely ignores the fact that contracts for long-term sales will inevitably demand the construction of yet more power stations, *at a price that is at least double that of the existing surplus hydro capacity.* The net result is that any reduction in cost (if there is one) to existing consumers will last at best a few short years, after which the bills for new construction will come rolling in, and all consumers (other than those on contract) will then need to pay more than would have been the case if these industries and associated power stations had not been constructed in the first place.

Let's not forget that we have started paying for them already, with about 30 per cent of our present power bills directed towards works that have yet to produce any power at all, and for which there is no demonstrable demand.

Another point is the possibility of two or three "dry" years, such as happened in the mid-1970s. If the hydro lakes are low, one cannot assume that several hundred million dollars worth of smelter will be shut down, and the workers paid off until it rains again.

What will happen is that either all the other consumers will go short, or else the extremely expensive Marsden A (maybe even the mothballed Marsden B) oil-fired stations will have to be run, to enable demand to be met by transferring power South via the Cook Strait cable.

Someone will have to pay the extra cost of generating that power, which is four or five times higher than the New Zealand average.

Taken all together, these points indicate that, in any economic study of the benefits of industries of the type proposed, the full cost of expanding the electricity system must be charged against the benefits to be gained, and the benefits of local downstream industries must be included, if there are any (I haven't seen many from Comalco).

Unless the industries can pay the full national costs of the expansion, they are likely to result in a net economic loss to the nation.

The sale of power at the sort of price Birch and the general manager of Comalco have been talking about has at no time been shown to meet these basic criteria.

Without these industries, there will be the opportunity to think carefully, before planning the release of funds into other, more productive uses.

In particular, the power station construction programme could be entirely revised, with those projects which are well on the way being complete, and all others (for example, Clutha) stopped immediately.

There is no conceivable need for further power station construction for the next 10 or even 20 years, judging from current and likely trends and our expected surplus.

Moreover, it is more than likely, given a long-overdue serious policy of energy conservation and changes in the pattern of consumption that are already evident, that no more capacity will ever be needed in New Zealand; the existing and imminent surplus — which is massive — is sufficient to take care of any realistic increase in demand — barring more new smelters and the like — for the foreseeable future.

Adams-Schneider claims that the Government cannot release all its information on a proposed second aluminium smelter, first because of the need to respect confidentiality of information supplied by the competing interests, and second to avoid giving away the Government's negotiating position.

On the surface, this argument is persuasive.

But on closer examination the logic appears faulty. In particular, the argument is so general and so vague as to justify total secrecy in just about any area of Government policymaking. (One suspects that identical arguments would be trotted out, if the Government was negotiating an arrangement with the private sector for providing morning and afternoon teas in Government departments).

Company information should probably be respected where secrecy is demonstrated to be necessary, although the ethical justification for such respect is questionable, particularly in the case of a multinational company with a local monopoly.

It is in the area of Government economic policymaking, however, that Adams-Schneider's asserrions must be examined most carefully.

The Government is intending not only to sell off the current power surplus, but also to enter into agreements that will pre-empt vast quantities of capital funds for the next decade, and the probability of a long-term indirect subsidy by electricity consumers and taxpayers.

Is it not of the very essence of democracy that he publish at least the basic ground rules used for project evaluations of this type? After all, to claim that his own officials have carried out checks and cross-checks assumes first that the rules against which they are doing the checking and cross-checking are correct, and second that his officials possess all the information needed for a complete assessment.

Without a proper independent audit, by competent people free from political influence, can any such assessment be regarded as totally reliable, and unbiased?

It looks suspiciously as if the Government's policy in the power surplus, namely that "... It is not prepared to do nothing about it", could be seriously in error.

One is left with the feeling that, either the Ministers do not understand the economic and technical complexities of the subject, or that they are so desperate to hide the results of major planning errors of the past that they are willing to send yet more billions of dollars of good money after bad, simply

Continued on Page 32


Cressida

Management

Increased temping spurs staff agencies

by Molly Elliott

AGENCY work, knowledgable friends said when I first went to London 29 years ago, is the shot. "You shift from job to job paid only for the hours worked, and you need give only an hour's notice."

Through an agency, I worked for the Automobile Association and the Docks and Inland Waterways Executive. On a second trip and through the same agency, I worked for the Egg Board and for Austin Reed's menswear store.

Like many New Zealand working holiday-makers, that was my introduction to employment agencies of which this country was then as ignorant as a Windward Islander.

Even in 1961, I found only one employment agency operating in Auckland. I worked for it over several months for the World Record Club, Armstrong and Springhall Ltd and a truck dealer.

Recently, I registered with a highly efficient agency, and worked in a factory canteen, for a chemical company, and for a public accountant.

I had ample choice of agencies this time. They fill eight pages of the Auckland telephone directory's Yellow Pages. They include overseas companies that have opened New Zealand branches.

One agency, Drake International, started in Winnipeg, Canada, with only $2000 capital. It now has branches in Australia, America, Europe, South Africa and Britain. It opened its Auckland office in 1972 and has suburban satellites in New Lynn, Penrose and Otahuhu. Its Wellington office has a Lower Hutt off-shoot. It also has a Christchurch branch.

The staff placement industry has evolved over the last 30 years.

The Drake company set out to become a world leader in the personnel industry.

"Where there's a market for skills, we do business," says P R Meingast, area supervisor New Zealand for Office Overload, Drake's temporary employment department.

Why has the industry expanded for temporary and permanent employees?

Meingast cites one reason: the availability of more skilled people who have grown fussier about working conditions. They need a confidential service through which they can seek jobs without having to walk the streets.

Because client companies must use time effectively, newspaper advertisements merely inundate them with replies and management must spend considerable time interviewing applicants. The agency assumes this chore, weeding out possibles for the client to see.

As regards temporary work, many women — specially if married — find this best suits them.

"The client must balance work force with work load," Meingast pointed out. "Therefore, companies have become selective in engaging staff for one-off jobs that may last two days of two months."

Agencies today call themselves temporary help contractors. They take all the risks, protect the applicant, screen clients and act as counsellers and consolers.

When Drake arrived in New Zealand, the industry needed a well-organised approach to temporary help. As it has developed, it has less tolerance for the scruffy office like a corner cupboard with the shelves taken out.

The temporary staff situation has moved through four stages. The first was as a rescue service in the event of illness or holidays.

In the 1950s, it entered a second phase as companies began using temporary staff in flexible planning taking peak cycles into account.

In those days of full employment, skills were scarce. Then times hardened, squeezing profits. Computers arrived. Companies and agencies had to develop an organised approach.

This took the personnel industry into the 1960s. By then, it had diversified considerably, entering a third phase. The need ran not only to office staff but to demonstrators, promotion and sales staff, a trend taking in the mechanisation drive.

The client now expects the contractor to take on an entire job for which it has no qualified or available staff.

Meingast says that, while his company can cater for all clients, many agencies still operate at the first level. Some have entered the second phase but contractors need a pool of all available skills.

He foresees the day when contractors will supply machinery along with temporary staff.

Agencies cost a lot to run. They pay out wages whether the client pays them or not. Consequently, they have a professional organisation, the New Zealand Association of Temporary Help Services, established in 1975.

The Federation of Personnel Services caters for agencies specialising in permanent jobs.

With the deepening recession, more clients have experienced reduced profits. New technology has changed the working environment. Meantime, the temporary help industry continues growing because of an unemployment rate not experienced in new Zealand for many years.

Nevertheless, it is still difficult to find skilled individuals especially in data processing.

Another sign of the times: competent secretaries do not move as frequently as before. Computer processors and operators can almost immediately find jobs; not so, filing clerks.

"Because costs have risen so dramatically, clients generally have become more selective," Meingast says.

The agency must satisfy both client and worker, hence the need for professionalism in a changing industry that must improve its marketing.

Workers joining an agency's staff all sit tests. This evaluation usually includes typing, figures, verbal fluency, filing, shorthand, plus an interview and a check on references.

Meingast's company demands a client's report on a staff member. They consider it essential to have an on-going assessment of performance.

Some agencies rely on telephone assessments. Others find invaluable a permanent record approximating racing form.

What happens if the agency receives an unfavourable report? It talks to the employee, guides and counsels if necessary. A second unfavourable report means another conference, possibly a retesting. A third bad report means that the arrangement just has not worked out for either party.

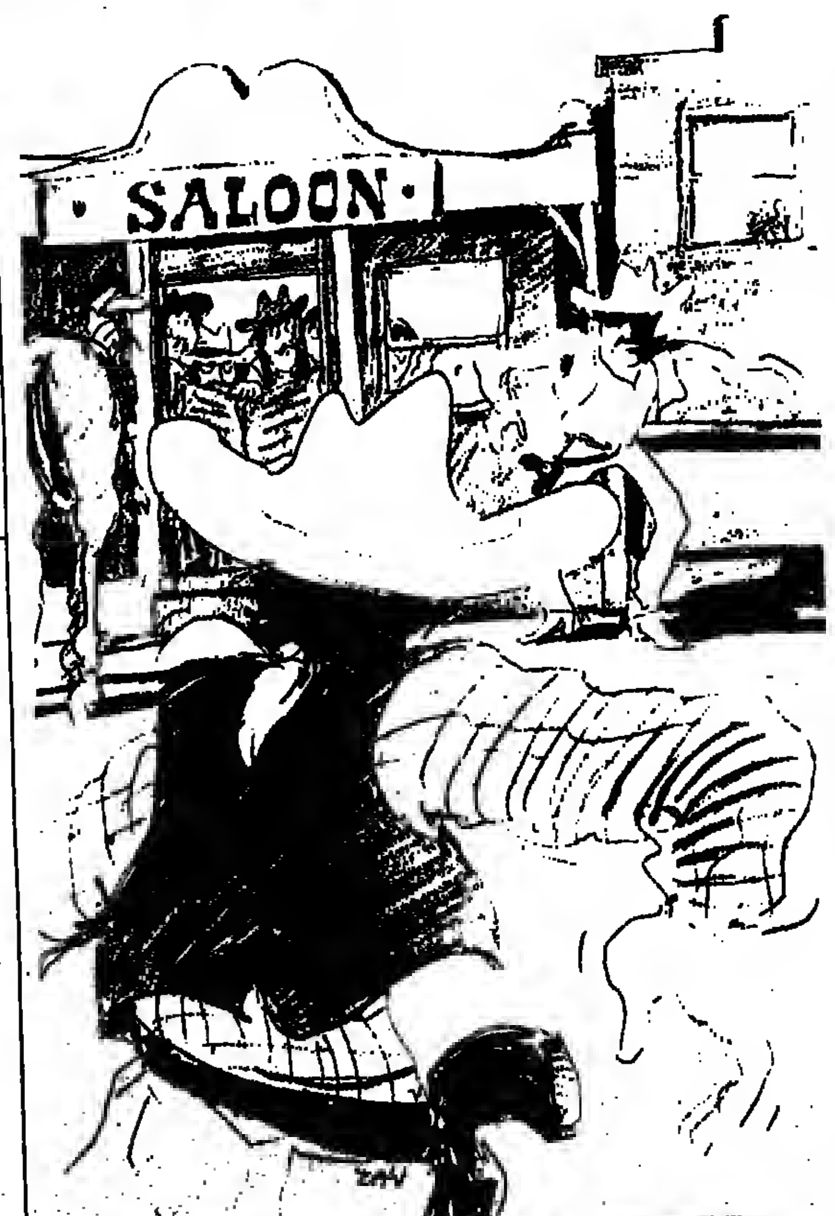
Sometimes, it's the client who needs guidance, says Meingast.

Can anyone start an agency?

Why not? It does, however, require considerable finance and licence. The day when someone could open an agency on a shoestring budget and without expertise has long past.

That's the sort of place I first tried in London — a dingy office in charge of a man with the suspicious, dour look of a conspiring lay preacher. Some places like this took the employee's first week's pay.

But now contractors must make their wage records available to the Department of Labour. Lists of employees must go to unions. Otherwise, the whole operation depends on the ethics of the industry and, in increasingly competitive circumstances, these must be high.



Transport

Air NZ caught in railways finance slipstream?

by Bob Stott

THE emphasis was on the new Boeing 747 jumbo jet fleet when Air New Zealand held annual press forums in Auckland — but a more sombre story emerged as the day drew to a close.

It was a story more familiar to railwaymen than the aviation industry — a story of annual deficit, of fare increases not high enough to recapture profitability and yet too high to attract new traffic, a story of threatened service cut-backs and of closing smaller terminals.

It seems that some airline executives are beginning to wonder whether transport may be inherently unprofitable — that we might be entering an era when revenue will be unable to keep up with expenditure.

There was a hint along these lines in an address to the forum by Air New Zealand general commercial manager Matt Ramsden. Discussing the domestic market, he said: "We many well be coming to the crunch point, the point at which price increases are to a significant degree counter-productive. This may in turn challenge the principle of cross-subsidisation, which has worked effectively in New Zealand domestic air transport for so many years."

In short, the time might come when regular fare increases start scaring away passengers . . . when an increase in fares will start pricing air travel off the market.

That would affect the whole air service structure. Traditionally, Air New Zealand and predecessor NAC have pitched fares at a sort of average level. As a result, on trunk route where good loadings and longer distances prevail, the services make good profits. On provincial routes, with smaller and less economic aircraft, with poorer load factors and with shorter distances, losses, or at best break-even results are the rule.

As long as the trunks are well patronised, the airline can afford to carry the provincial runs (the air equivalent of rail branchlines) but if trunk services profits diminish, then the secondary runs become an unsupportable burden, for there would be no way that the trunks could subsidise the minor routes.

The airline would then have several choices.

- It could be forced to do nothing, run into the red and stay there, trapped in the same vicious circle which has surrounded New Zealand Railways — through no fault of its own.
- It could cut back on services until all that was left were the profitable runs. This course of action has political repercussions, to put it mildly.
- It could develop and expand those services which are commercially sound; continue those services which provide proven and adequate social benefits (and spell out the costs; and discontinue those services which have no clear commercial or social justification.

Regarding the continuation of services which "provide proven and adequate social benefit", Air New Zealand would want to be recompensed for their provision.

If this happened, we would have reached the stage of giving up on trying to make some transport services pay. But the airline would not carry the burden; nor would users of the profitable trunk services.

If the Government would not accept that some services should be supported by grants from central government funds, Air New Zealand would have to trim back these services.

In short, Air New Zealand could cut its losses on secondary routes in several ways — by closing airports not far removed from alternatives, by reducing and compressing services into a single shift, and by stopping some altogether.

The loss on domestic services has not reached the colossal dimensions of Railways losses — my estimate is a deficit of around $725,000 in 1979-80. And if domestic services are subsidising international services, the domestic loss would be a much greater percentage of the total 1979-80 loss of around $20 million.

Airline finances were discussed in detail at the press forum by Air New Zealand general manager corporate finance Bill Varcoe, who pointed out that a Government directive requires the airline to "act in all respects in a commercial manner, to make profits and to pay a dividend on equity capital".

He quoted "at least 5 per cent" as a reasonable rate of profit before tax, so that $25 million or $30 million in the coming year would not be untoward. These figures show just how far the airline is off acting "in all respects as in a commercial manner".

Varcoe pointed out that the domestic service load factor had been 70.6 per cent in the year to March 1980, a good average in anyone's language.

So why the loss? Fundamentally, said Varcoe, an inability to keep pace with sky-rocketing costs. He pointed out that the Air Services Licensing Authority does not consider it in the public interest to allow fares to be based on anticipated cost increases, so there's always a lag.

For example, at the time of the September 1979 fare increase application, $7 million of increased cost had accumulated, which was absorbed and not recovered in the fare increase.

Varcoe explained that the other contributing factor to domestic losses had been the effect on the provincial services of the huge rise in cost increases and increased fares.

"These have only served to exacerbate the provincial losses. At the end of December the trunk services were showing a profit of about $7 million after the full allocation of all revenues and overheads, but this was more than extinguished by the loss on the provincial services," he said.

That gives some idea of the airline's dilemma. There is no doubt that 1980 will see more fare increases. Last year fares rose in August by 10 per cent and by 11.25 per cent in September, and by 16 per cent in February this year, a cumulative total of 42 per cent.

Ramsden pointed out that, in round terms, the cost of operating Air New Zealand (domestic and overseas) could be divided into three roughly equal sections — about one-third being the cost of fuel, one-third labour, one-third everything else.

The airline is not able to do much about fuel prices, and has little say in labour costs, thus the upwards fare spiral will continue with fuel and labour costs.

If the public can appreciate the dangers of allowing an organisation to run deeply into the red and yet insist on no service reduction or steep fare rises, then the way is clear for the airline to unburden the cost of "social" services on to some other Goverment agency.

A loss of less than $1 million on domestic services may seem no big deal, but when short-term prospects are not bright, the airline is in a difficult position.

Manufacturing

Aussie entrepreneur puts consumer first

by Warren Berryman

FRANK Bannigan, dinkum Aussie entrepreneur and self-made man, moved fast when he decided to shift part of his manufacturing operation from Melbourne to Auckland and cash in on New Zealand's export subsidies.

Sixteen years ago Bannigan started his Melbourne-based Kambrook Distributing Pty Ltd with a peppercorn capital of $3000. Last year his electrical hardware manufacturing firm turned over $15 million. Next year's estimated turnover: $25 million.

Six months ago Bannigan decided to shift part of his operation to Auckland.

Today, $400,000 later, Bannigan has a factory in Glenfield making products for the New Zealand market. His goods are on sale and selling well.

From inspiration to actuality Kambrook took less time to get its goods on the market than many Kiwi competitors would have taken just to get the idea through the board room and on to the drawing board.

What's more, Bannigan promises to be world-competitive in price from the start, offering New Zealand consumers cheaper goods and exporting more than 70 per cent of his total production within the first half-year of operation.

This is a tall order in a country where manufacturers, after enjoying more than 40 years of import licence protection allowing them to charge what they will in a captive consumer market, and being heavily subsidised by export incentives, find it difficult to export more than 20 per cent of their production, much less compete with imported goods or offer their local captive consumers quality foods at anything like world prices.

Taking advantage of an infrequently used section of the Nafta agreement known as the "rationalisation scheme", Bannigan has shifted the manufacture of three of his products to New Zealand and in return been given import licences to bring in two other product lines from his Australian operation.

The New Zealand side of the operation, known as Kambrook Manufacturing (NZ) Ltd, started production on a trouble light.

Several more New Zealand-made products will follow by January 1981.

Kambrook items imported from Australia are a light and power reel, and a food and water heater. Looking very much like an electric coffee jug, this gadget will boil the coffee water, heat a tin of baby food and pouch three eggs all in one fell swoop.

The Glenfield plastic injection moulding plant making these goods employs 12 people under the management of New Zealander Mike Worthington, who has 14 years' experience in injection moulding.

The plant will employ 50 people within 12 months, Bannigan said.

The plant opened on May 15. Two weeks later the 7000th unit rolled off the line.

In the first half-year, Bannigan said, he anticipated local sales of $0.2 million and exports of $0.5 million.

Distribution in New Zealand will be handled by Heatway Industries, agents for General Electric home appliances.

On the export side, Bannigan is looking first to Australia, then to the United States where his products are undergoing their final testing by the Underwriters Laboratory, and then to South and South-east Asia.

Kambrook's Australian operation, paying higher wages than those paid here, has been exporting to Hong Kong, without the benefit of our export subsidies, for some years.

Bannigan says he plumps for high-volume low margin. Then, he ploughs profits back into plant.

Bannigan boasts that his Glenfield computorised injection moulding plant is the best — the most modern — that money can buy.

The $300,000 which Bannigan has tied up in plant at Glenfield, will work 24 hours a day six days a week.

Bannigan had nothing but praise for Trade and Industry Department officials. He said he found them good to deal with and flat out to get his project off the ground.

He was not so enthusiastic about the attitudes displayed by and the prices quoted by his New Zealand manufacturing component suppliers.

The New Zealand content of his products ran at about 70 per cent, Bannigan said.

But this high local content was not obtained without sacrificing export competitiveness.

Kambrook's products are made from a plastic compound known as ABS. The world price for this substance is $1.05 a kg, the Australian price $2.25 a kg, and the New Zealand price $2.50 a kg. Kambrook buys from a New Zealand supplier/manufacturer.

Kambrook's products require electrical cables. Bannigan said that as his Australian company bought these cables from a New Zealand manufacturer (and let the New Zealand manufacturer in on those export subsidies), the price would be one-third of the price paid by his New Zealand operation (without the export subsidies being paid to the cable supplier).

While attractive to local suppliers, it was hard to maintain this policy of buying locally and keep up local content, Bannigan said.

He said New Zealand electrical hardware was half the price in Australia than it was in New Zealand.

"New Zealand electrical manufacturers are loading domestic prices in order to export," Bannigan said. "We won't subsidise our exports at the expense of the local consumer."

Kambrook products would sell in New Zealand for about 10 per cent above the Australian price. The major factor in that price increase, he said, was distribution transport costs.

Internal transport costs here were about three times those in Australia, he said.

So why move part of his operation to New Zealand?

The prime reason, Bannigan said, [illegible] which were higher than those offered in Australia.

Labour here was plentiful and about 10 per cent cheaper than in Australia, he said.

The New Zealand market, as big as New South Wales, was opened to him by the Nafta rationalisation scheme.

On the negative side, there was a higher cost for internal transport, higher prices for inputs, and slow, reluctant, or irregular suppliers.

Bannigan said New Zealand manufacturers were reluctant to tender prices, unreliable as suppliers, and expensive.

When he cracks the American market for exports from New Zealand, he said he would use American suppliers.

But, he just wanted to get established here, not to stir.

It is the consumer who counts for Bannigan. Consumers buy the product and success or failure depends entirely on them.

Bannigan, as a boy from Broken Hill, an electrician in the mines, started his own business winding motors at 17. He went to Melbourne in the early 60s to open Kambrook Electrical Pty Ltd a contracting business with $3000 capital. In the first year, the turnover was $100,000.

In 1964 he launched Kambrook Distributors, a hardware manufacturing company. Turnover for that company has increased 1977, 160 per cent, 1978, 100 per cent, 1979, 101 per cent.

1980 brought Kambrook to the $15 million mark. And Bannigan expects a turnover of $25 million by 1981.

Bannigan's first export success from Australia was in Hong Kong where the consumer is king and has open access to the best goods and the lowest prices.

Frank Bannigan . . . plumps for low margin.

One might expect that after Hong Kong, the New Zealand market would be a push-over. But it appears Bannigan raised a few eyebrows and hackles before his concepts were accepted here.

Kambrook refused to give discounts. So long as a retailer ordered a full carton (10 units), the biggest retailer got no price advantage over a smaller competitor, no matter what volume he ordered.

And Kambrook supplies no recommended price lists. If the retailer can cut his margins and give the consumer a better deal, that's okay so far as Bannigan is concerned.

"This," he said, "will meet some real competition and the consumer will benefit."

Bannigan offers retailers a sweetener.

He said he will spend 6 per cent of his sales receipts on advertising — 95 per cent of this on TV. Ad campaigns are planned for June, August and November. By Christmas, Bannigan said he would spend $80,000 on TV advertising.

Overseas trade

Industrial leaders seek commitment to free trade

FURTHER reinforcement of commitments to maintain a liberalised trading system are likely to result from a meeting nf the heads of state of the main industrial cnuntries.

Among the issues to be discussed at the "summit" meeting in Venice, which opens today, will be the need to avoid protectionist actions and implemeot the agreements concluded last year in the Tokyo round of trade negotiations (MTN), American officials say.

The seven-nation summit meeting will conclude tomorrow.

Countries were under tremendous pressure to take restrictive actions in individual industries as a result of an expected world-wide economic slowdown this year, said one American official.

Considerable attention therefore would be given to positive adjustment policies – those policies which governments can pursue in seeking to avoid trade-restraining actions even in the face of rapidly increasing imports.

Another important trade issue expected to be discussed at the Venice summit, is the extent to which gnvernments can subsidise export financing.

Reubin Askew, President Carter's special trade representative said more than $5000 million were spent by governments in subsidising export credit in 1979. France allocated more than $2000 million for that purpose and Britain more than $1000 million.

The United States Government hopes for a change in the current formula on export credits that would account for exchange rate differences which have a major impact on both prices and interest rates.

Some trade experts have begun talking about the idea of a major new round of trade negotiations with particular emphasis in the services sector (banking, insurance, engineering, hotels, air transportation and so on).

But one official said any summit-level action in this area wns unlikely before 1981.

"People feel we've gone through major negotiations in the MTN and that we have a hell of a job left to implement those negotiations."

Specific issues of trade in steel and artificial fibres may be brought up by summit participants, American officials say.

While they are reluctant to guess exactly how far the heads of state will go toward commitments in the trade area a high-level commitment to abide by the trade pledge that was adopted by ministers of the 22-member OECD in Paris on June 4 is considered likely.

The trade pledge, rewritten for the first time since 1974, holds the industrial countries to a "basic political commitment to make a political effort in managing their (internal and external) affairs in a way that minimises trade restrictions, Geza Fekerekuty, assistant special trade representative for trade policy development, explained.

Specially important, he said, was that the new pledge was timeless whereas the old pledge had to be reviewed and renewed each year.

"In the trade committee of the OECD we would spend half the year deciding what we would do with the pledge the following year," he said.

"Many people began feeling it was a waste of time. Having an annual renewal process also threw doubt on whether countries were committed to a liberal trade system."

Fekerekuty said a new review process agreed to in Paris would not be directed at the trade pledge itself. Rather, each country would be examined to see how well they had done in sticking to the basic principles of the pledge.

Fekerekuty said the pledge was more than "just a piece of paper", and would help limit trade restrictions through its ability to exert moral pressure.

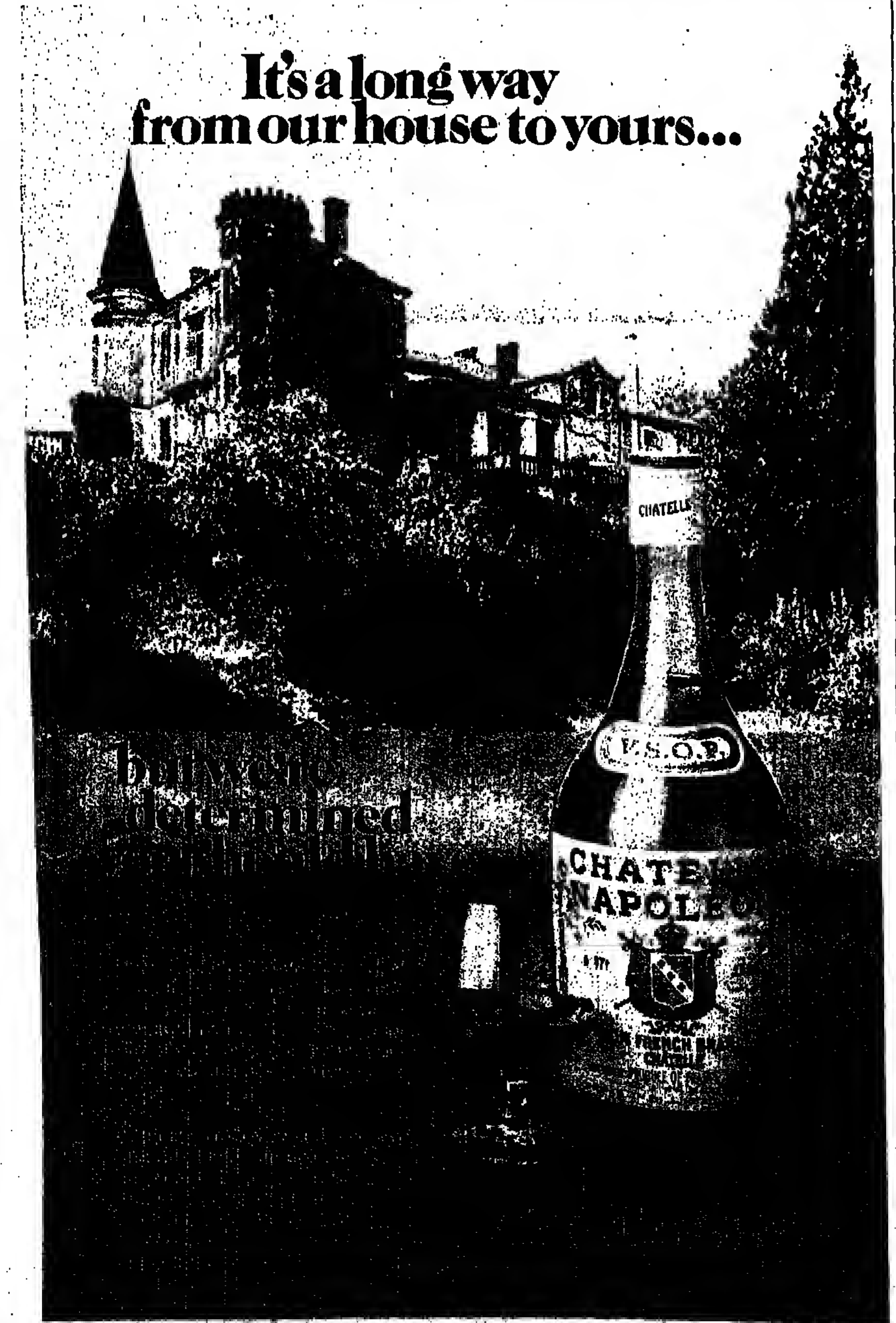
"Once you have a trade pledge it becomes incorporated in the litany that's recited whenever ministers, or presidents, get together. It gets incorporated in summit communiques and summit statements," he said.

"And it gets highly personalised, particularly when it gets up to the summit meeting and Minister X starts holding Minister Y responsible for what his country has done."

Inflation slows down in US

A SMALL rise in producer prices in May provided new evidence that inflation in the United States may be slowing down.

Prices charged by producers for finished goods rose only 0.3 per cent over the previous month, continuing the slowdown that began with April's rise of 0.5 per cent. During the first quarter of this year the average monthly increase was 1.5 per cent.



Energy

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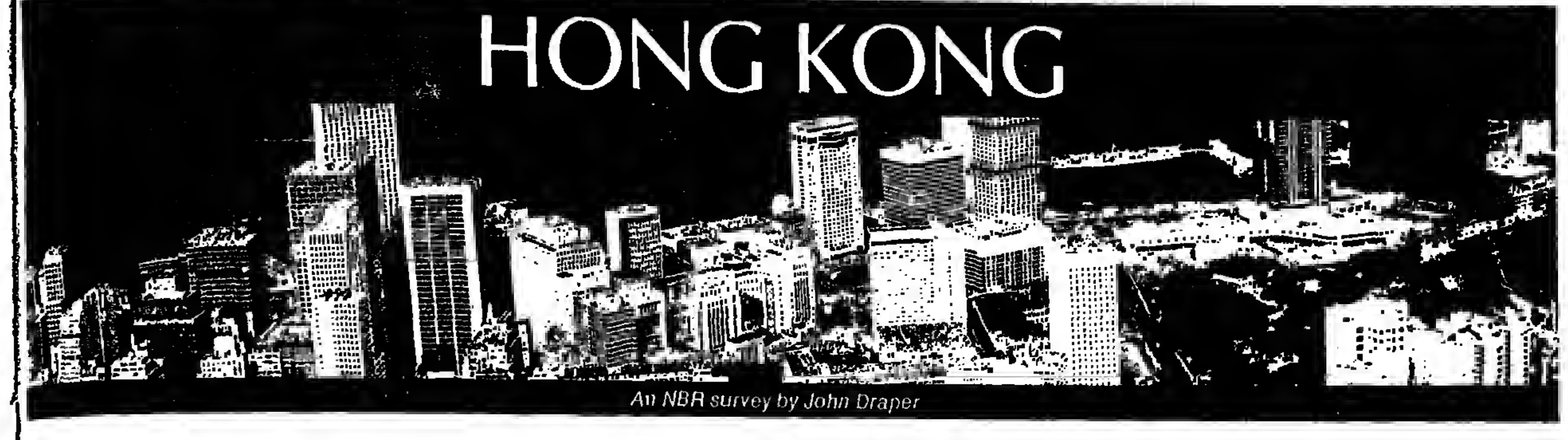
to avoid the need for the major and inevitable structural changes in the economy, in national lifestyle, and in individual expectations that have been staring us in the face for the last few years.

The fundamental argument in this whole debate is, of course, whether money could be better spent in other areas of the economy. Since the proposals currently under consideration will leave little, if any, spare funds for other ventures, opportunities which show the potential for more wealth, more employment, more economic health and less susceptibility to the vagaries of export markets, will be squeezed out.

There is no evidence, for example, that the Department of Trade and Industry gave serious thought, let alone detailed investigation, to other alternatives, before inviting proposals to use the "surplus" of "cheap" electricity.

Surely, the best thing to do now, is to call a halt to the secret negotiations and wheeler-dealing, and convene something like another National Development Conference?

At such a forum, the opportunities and alternatives facing New Zealand could be clearly and dispassionately reviewed, as a democratic basis for policymaking in the next few years. Without such a debate, there will continue to be a deep suspicion of Government actions, which can only be destructive of a democratic porcess based on trust.



An NBR survey by John Draper

Out to make a million (or more) on crowded rock

CLINGING to a rock on the southern coast of China is the world's last bastion of truly private enterprise.

Everyone of the 5 million plus people crowded into its less inhabitable spaces are there to make money, the immigrant his first million, the millionaire his billion.

It is a magnet not only for Chinese fleeing the mainland and Vietnam, but also for English, Australians and New Zealanders escaping stifling governments for Hong Kong Ltd.

The "company" makes a comfortable profit for its four major shareholders. The British, who were there first after being expelled from Canton in 1839, the Chinese, who soon followed, and more recently the battalions of big business, Japan and the United States.

Nominally, the British are still in control through the Governor who is appointed from London and a Legislative Council comprising the colony's leading "taipans", bosses.

In practice, Beijing subtly controls the colony by acquiescence.

The Chinese Government refuses to recognise the three leases which expire in 1997, and by which Britain added much of Kowloon and the New Territories to Hong Kong island.

Peking maintains that Hong Kong is and always was part of mainland China and is temporarily under the control of a foreign power. It doesn't need leases which are going to be more embarrassing to the British than the Chinese – or even be to take back the colony any time it pleases.

All it needs to do, according to local wits, is make one phone call to the sympathetic Hong Kong Trades Union Congress and the ensuing general strike will bring the Government tumbling down.

That phone call is unlikely for many years. Hong Kong is too important as mainland China's gateway, its training centre, and an important source of foreign exchange.

China is the least likely threat to the colony's future, and at least one major "hong" laughed at its conservative accountants who suggested all assets in the New Territories should be rapidly written off because the three leases expire in 17 years.

Hong Kong's immediate threats to survival are economic recession in Europe and the United States trade protectionism and immigrants.

Few nations, perhaps New Zealand least of all, comprehended what an extra 70,000 refugees from Vietnam meant to the colony on top of a huge influx from the mainland.

Forty thousand are still there, many refusing to register for transfer to the United States because of a mandatory three-month stay at a refugee camp in the Philippines. Already they are vanishing from the reception centres into Hong Kong's shanties and economy.

In total, an extra 300,000 people are thought to have arrived in the last two years bringing the population to somewhere between 5.2 million and 6 million.

The exact figure is unknown. Economists and statisticians favour the lower figure, reasoning that electricity, water and food consumption has not increased to support a population of 6 million.

Now there is a lull. Up to early May, only 1018 Vietnamese boat people had arrived, and the co-operation of the Chinese Government has reduced the flow of illegal immigrants to around 300 a day.

For each one the British Army border patrols detains and returns, another 1.5 are estimated to make it to the safety of the urban centre. Once there they can immediately register for an identification card and find work.

So far reaction against the illegal immigrants from both sources has been restricted to the occasional newspaper editorial, letter columns and radio talkback shows – the most powerful indicator of public feeling. But now there is a growing groundswell suggesting that even those who make it to the heart of Hong Kong should be returned to China.

Long-term social problems are hidden in the inflow, specially that from China. Most of those who succeed in getting through the border patrols to the sanctuary of the centre are young and male.

Men already outnumber outnumber women 53:47 on average, a ratio that is thought to be far wider in the 20-40 year age group.

Jobs will be one problem, specially for the unskilled immigrant but the shortage of suitable marriage partners is expected to be revealed in a more ugly way, an increasing number of sexual assaults and violent crime.

Immigration is further straining the Government's low-cost housing plans, blamed for encouraging the influx from China.

Despite building 92,000 units in the last three years, the Government will fall short of its target of 175,000 new units by 1983. Forty per cent of the population now live in Government-sponsored housing ranging from "lock up beds" in old resettlement blocks to low cost multi-storey units to flats sold at cost price to those who qualify by income.

Land is crucial to the colony's development and the administration has been blamed for not producing enough and thereby creating the boom in rents and property values experienced in 1979.

In the Budget, Financial Secretary Sir Philip Haddon-Cave said: "More land is thought to be the solution to pretty well all our problems from housing to rents to inflation. None of these problems are quite as simple as that."

Nevertheless, the Government as the sole supplier of new land has been unable to keep up with demand as rising auction prices testify.

Average prices at Government land auctions in all areas, excluding the New Territories, went up by 18 per cent for industrial sites, last year 25 per cent for commercial sites and residential sites – a massive 11 per cent.

Land is also a major source of Government income. In the last four years, sales of reclaimed sites have totalled 91 hectares. This year 80 hectares will be released putting an estimated $1000 million into the exchequer before reclamation costs are deducted.

Another 90 hectares will be released next year, declining to 60 hectares in 1983.

An influx of new firms is a contributing factor to the increased demand for both office and factory space, though property experts doubt

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GATT puts check on riches from the rag trade

RECESSIONS are dreaded, because the misery they bring to Hong Kong is much more devastating than that of any summer typhoon.

Trading restrictions imposed by countries no longer willing to compete are feared almost as much.

Next year's portents are grim.

The deepening recession in the United States is expected to spread world-wide bringing a downturn in trade. And against that background Hong Kong will be renegotiating the multi-fibre agreement which controls its exports of textiles and clothing to most developed nations.

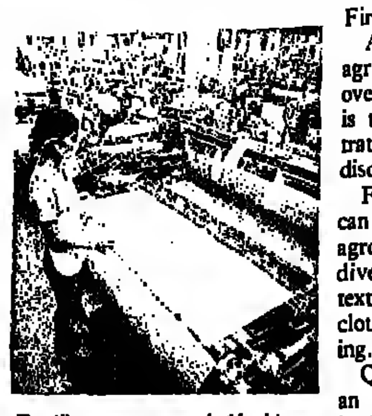
Already there are strong indications that trade protectionism is gaining momentum as the older industrialised nations find they can no longer compete against the efficient low-cost manufacturers of South-east Asia and Japan.

The long-drawn-out Tokyo round of multilateral trade negotiations under the GATT umbrella gave the developing industrial nations little.

Hong Kong fought with Australia and New Zeeland against the selective system that the industrialised nations wanted to restrict competition to the detriment of the developing nations.

With the tide already flowing strongly against free trade, Hong Kong next year gets down to renegotiating the agreement introduced as a temporary four-year stop-gap in the early 1970s.

The agreement provides for countries suffering harm from textile imports to negotiate a bilateral agreement with Hong Kong setting quotas. Quotas are also set for other exporters



Textiles . . . move out of fashion.

such as South Korea, Taiwan and China.

Bilaterals cover trade with the European Economic Community — it was Britain's ailing textile industry that prompted the forerunner of the multi-fibre agreement — Canada, Switzerland, Sweden, Austria, Finland and the United States.

Australia has a special agreement giving it control over imports. And Hong Kong is throwing GATT administrators the shuttle to overcome discrimination from Norway.

For Hong Kong, the results can be painful though the agreements have forced a diversification within the textile industry from cheap cloth to "ready to wear" clothing.

Quotas are normally set on an equivalent square metre basis and to maximise returns manufacturers are moving to high-quality fashions.

As a result, the textile sector has continued to earn half the colony's foreign exchange, though the rapidly growing electronics sector eased the proportion back to 45 per cent in 1979.

Hong Kong will go into the multi-fibre negotiations apprehensively.

Bilateral agreements with the United States have already breached the "rules" established in 1977 and the agreement with the EEC strayed further from the formula.

Hong Kong's position is weak. It has no bargaining clout to wield, relying solely on the skills of its negotiators.

For the administration it is a dilemma. Should they go into the negotiations demanding a return to the 1977 rules or accept that a new position has been reached and negotiate the best possible terms.

Throwing out the agreement offers little hope.

Though it can be invoked at the whim of any nation claiming to suffer hurt, it at least extends some rights to Hong Kong exporters. Without it, textiles would return to the general provisions of the GATT with worldwide quotas and their attendant problems.

The quotas and export licences are sensitive issues in Hong Kong.

Unused quotas are usually cancelled from one year to the next to mollify importing nations and quality is strictly controlled.

Export licences have acquired a market value as former exporters move into other fields, a development concerning both industry and administration.

Clothing . . . on the way in.

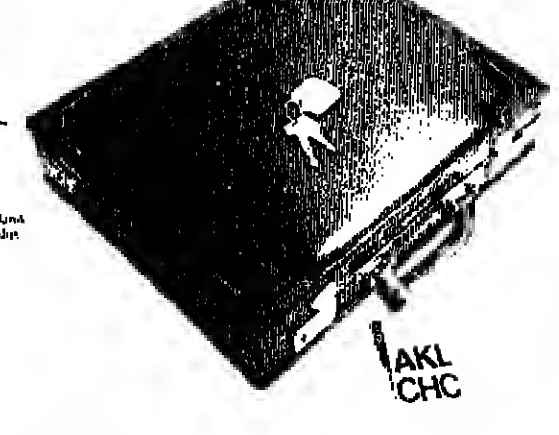
Often, it is claimed, licences cost more than the manufacturer's profit.

The system of allocating licences is being overhauled but profiteering from licences is a problem that is unlikely to be completely eliminated.

Manufacturers without a licence are using other ways to get their goods to the export market. Cashmere pullovers are made in Hong Kong and exported to China with "Made in China" labels already stitched in place.

Wrapped by the Chinese and exported on their quota and almost certainly trans-shipped in Hong Kong, the pullovers at least show up as Hong Kong "re-exports".

Refugees . . . an unstoppable flow of misery.



Exporters dispell early gloom predictions

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whether they have had a significant effect on the market.

Rising incomes, in money terms up 18.7 per cent last year, and the inflow of refugees, have brought about an upward shift in housing demand, and this the experts claim, is the real cause of escalating property values.

Hong Kong's labour market is as free as the rest of the economy. Only where there are specialised skills, such as in aircraft engineering, do trade associations or trade unions have much influence. Elsewhere a surplus of labour means a cut in wages as the natural laws of supply and demand come into effect.

Some economists argue that the refugee inflow is cheating the existing workforce of the benefits of higher wages. Employers would undoubtedly prefer a continuing trickle though not the recent flood.

The massive influx of refugees, beginning at a time when there was a growing labour shortage, eventually flooded the market, pushing wages down in real terms by 11 per cent between March and September 1979.

Meanwhile inflation was stoking up, fired by higher food prices and soaring property values, to reach a rate of 13 per cent by February.

Actual figures for 1979 vary depending on which index is used, from 12.4 per cent up to 18 per cent.

But real growth soared from a budgeted 7 per cent to 11.5 per cent.

The Government is budgeting for 10 per cent inflation this year, a figure some economists are already predicting as being too modest.

Despite inflation, 1979 was a good year for the colony.

Early gloom was quickly dispelled as domestic exports forged ahead, 36 per cent by value, and re-exports by 52 per cent.

Textiles and garments still dominate 43 per cent of exporters and showed remarkable growth, 30 per cent by value, as the European Common Market and the United States tightened quota restrictions.

To extract the maximum from quota restrictions, Hong Kong is going up-market to designer clothes which, with sales doubled in value last year is an export-earner.

Electronics is the fastest-growing sector and Hong Kong is now the world's largest producer of watches, ahead of Japan and Switzerland, where 17,000 workers lost their jobs because watchmakers failed to join the digital boom in time.

Nor is Hong Kong playing with electronic games, still classified as toys, which it dominates with half the world's estimated production. Speed and versatility are the essence of the colony's manufacturing sector.

Twelve factories were churning out the hand-held electronic toys at the beginning of 1979, 30 by the middle, and 60 by the end.

Despite fears of a recession which American economists say began in January, Hong Kong's trade got off to a rousing start this year. Domestic exports were up 45 per cent in the first two months, re-exports increased by the same percentage, while imports rose only 38 per cent. Nevertheless economists are forecasting an "ordinary year" for Hong Kong exports. Forward orders had changed little over the six months to February, though there were some signs of a slight weakening.

China might provide the cushion against the slowdown in world trade. Imports from China were up 60 per cent in the first two months of 1980 while Chinese goods passing through the colony destined for other markets were up 37 per cent.

Trade is still running strongly in China's favour — much of it food, power and water for the colony — but

Hong Kong in a nutshell

NZ$1 = HK$4.75

Area:	1060 kilometres
Population:	5.2 million
GDP:	NZ$18,388 million
GDP per capita:	NZ$3753
Imports:	NZ$18,071 million
Exports:	NZ$11,771 million
Re-exports:	NZ$4215 million
Imports from NZ:	$53.81 million
Exports to NZ:	$74.57 million

Hong Kong exports are growing rapidly.

Last year exports were $127 million, a hefty 643 per cent increase over 1978, and re-exports destined for China were up 513 per cent.

Most of the Chinese imports are yarn fabrics, electronic components and industrial machinery, the latter reflecting China's modernisation programme.

Even so, the visible trade gap is expected to widen this year as imports outstrip exports, but a huge surplus on invisibles is expected to leave only a small net deficit. Last year the net deficit was just over $100 million.

Economists are urging a quiet year to readjust to the huge influx of refugees last year and to lower inflation. Even so the Financial Secretary in his budget is forecasting a real growth rate of 9 per cent.

And unlike many finance ministers, Sir Philip Haddon Cave's problem is not how to minimise the budget deficit but how to minimise the surplus without overstimulating the economy.

The colony invariably runs at a profit, a fact well known in Whitehall which charges for the services of the military garrison. Hong Kong pays 75 per cent and Whitehall 25 per cent while still retaining control.

Britain's membership of the EEC has virtually given the colony its independence. But full independence is unlikely. Beijing would not tolerate it.

But the British Government is faced with an embarrassing problem — if it recognises the leases on the New Territories, what does it do in 1997? The Chinese who do not are unlikely to want to "renegotiate".

Optimists in the colony are predicting that Beijing will unravel the dilemma long before then. Already the province adjoining the border is being opened up to Hong Kong manufacturers and a border resort is planned on the Chinese side.

Eventually, the optimists forecast, other provinces will follow and in time Hong Kong will become a free port within China. But to fully incorporate the colony now would cause more problems for Beijing than solutions.

First it would lose an important source of foreign exchange necessary to buy the capital equipment necessary for its modernisation programme as well as taking on a massive integration problem.

Wealthy Chinese, adding to their wealth in the colony, are typically hedging their futures. Most own property, particularly in Vancouver, San Francisco and — more recently — in Australia.

Hong Kong's property magnates are interested in investing in New Zealand hotels, but like the Singaporeans on one condition — the key positions, which include bellhops and receptionists — must be filled by Hong Kong residents who know how to give service that keeps the international traveller coming back.

Regardless of what Beijing might do with the colony in the future, investment is continuing unabated with several massive projects, including a second harbour tunnel and new airport under consideration.

Politically, Hong Kong's predominant Chinese population divides into three groups, pro-Peking, pro-Taipei and those who are committed to the dollar before seeking residence elsewhere.

Dumping is the Kiwi codeword for competition

ALL New Zealand's worst exporting faults are crudely exposed in Hong Kong's buccaneering free-trading atmosphere.

The competition is tough. Hong Kong importers have few sympathies or loyalties, and buy from whoever can deliver the best-quality goods at the sharpest price.

Few New Zealand exporters measure up. The anecdotes that can be recited by Hong Kong traders — several of whom are New Zealanders — about the unprofessional "she'll be right" mentality of our exporters could fill the rest of this page.

The pace is hectic, the competition fierce.

The colony's traders live by the phone and telex and are instantly aware of world events affecting trading patterns and exchange rates. Time and knowledge is money.

Yet from one came this comment: "New Zealand is the only place to which I have to send three telexes to get a reply which then arrives seven days later in the post!"

Dumping, said another, is the excuse many New Zealand exporters use for not selling in Hong Kong. "It is their codeword for competition."

And the main competition is not from the other countries of South-east Asia or China, where wages are low, but from across the Tasman.

Australia outsells and outmarkets New Zealand's traditional exports despite its reputedly higher production and labour costs.

Australia is Hong Kong's 10th major supplier, New Zealand its 5th.

Australian dairy exports of $18 million last year were four times greater than New Zealand's, meat nearly three times New Zealand's $10.6 million, and vegetables more than double New Zealand's $4.64 million sales in 1979.

Australian firms have been quicker to exploit Hong Kong's building boom supplying architects, engineers and materials.

More importantly, the Australians are also getting into China, the ultimate market for any firm thinking of exporting to South-east Asia.

Australian trade representatives were among a party of Hong Kong, American and Japanese businessmen who recently visited the Chinese industrial city of Tietsin to discuss joint-venture manufacturing arrangements.

The Australians were particularly interested in making refrigerators in partnership with the Japanese, a product in which New Zealand has a healthy export trade across the Tasman.

On one point and one alone Hong Kong importers have no quibbles with New Zealand producers. Quality.

Importers spoken to by *NBR* want to buy from New Zealand. After United States chilled grain-fed beef, which commands premium prices, New Zealand and Australian beef are rated equally. But shipping and airfreight restrictions out of Auckland invariably leave the market short.

To ensure regular deliveries a group of importers proposed a weekly airfreight service in 1978 in conjunction with British airfreight operator IAS to carry chilled meat and other fresh produce from Auckland to Hong Kong. Transport Minister Colin McLachlan vetoed the licence application.

Since British Airways rerouted its flights to Auckland via Australia last year, Air New Zealand has a monopoly on the Hong Kong route.

Its DC10s stretched to capacity to make the flight non-stop and a full load of passengers inevitably means freight is off-loaded.

Shipping services are improving with the addition of a monthly container service with reefer capacity in addition to a monthly conventional service.

But rates are uncompetitive. For frozen goods, importers can ship from the West Coast of the United States at full conference rates 13 per cent cheaper per tonne than out of Auckland, which is closer.

Not much moves across the North Pacific at conference rates any more and the Hong Kong importer will pay only 70 per cent of New Zealand rates to source from the USA.

Hong Kong suppliers

FRESH FROZEN VEGETABLES		
Total imports Jan-Nov 1878	$5.197	million
New Zealand	0.172	3.3 per cent
Taiwan	2.82	54.3 per cent
USA	1.69	32.6 per cent
UK	0.288	5.7 per cent
PLYWOOD		
Total imports Jan-Nov 1979	$73	million
New Zealand	1.70	2.34 per cent
Taiwan	20.08	27.5 per cent
Philippines	16.83	23.5 per cent
Singapore	10.89	14.9 per cent
DAIRY PRODUCTS		
Total imports Jan-Nov 1979	$58.34	million
New Zealand	4.14	7.34 per cent
Australia	18.47	32.71 per cent
MILK FRESH AND POWDERED		
Total imports Jan-Nov 1979	$45.22	million
New Zealand	1.69	3.73 per cent
Australia	13.4	29.63 per cent
Netherlands	11.86	28.22 per cent
BUTTER		
Total imports	$7.29	million
New Zealand	2.19	30.1 per cent
Australia	4.07	55.9 per cent
CHEESE		
Total imports	$3.83	million
New Zealand	0.26	6.78 per cent
Australia	0.96	25.15 per cent
USA	0.65	17.17 per cent

Rates from Australia are cheaper still. The full conference rate from Sydney is only 75 per cent of the ex-New Zealand rate and a non conference rate two-thirds.

New Zealand has one other advantage in Hong Kong — a small number of New Zealanders with influence, managing large Hong Kong firms, who have a persistent patriotic streak that makes them want to buy New Zealand despite the problems. They hold positions that might easily be filled by Australians, Englishmen or Hong Kongese with no such sympathies in years to come.

The trading picture is not all gloom. The largest, and reputedly the best, supermarket in the colony has New Zealand's products on display, if overshadowed by those from Australia, the United States, Britain, Taiwan, Japan and China.

Closer examination of the trading figures offers some hope. Exports to Hong Kong were up 50 per cent last year (so were Australia's, but from a base over four times the size).

Wool — showing the most significant increase — was up 65 per cent to $13.66 million; paper and paper board was up 67 per cent to $9.17 million; meat and meat preparations were 25.6 per cent up to $10.61 million; vegetables and fruits increased 30 per cent to $4.64 million.

China is, and always will be Hong Kong's major food supplier. Five thousand pigs are transported over the border daily to feed the colony, along with mountains of vegetables.

Competing against China is not thought wise by local traders and the Australians are already moving out of the cheap beef market, attempting to herd New Zealand out of its share the prime air chilled trade.

Falling production and the demands of the American market may yet hand the Australians the prime beef market on a plate.

Production shortages and a tacit carving up of the world by not competing too vigorously in markets where the Australians are strong are reasons proferred by organisations such as the Dairy Board for not selling more in Hong Kong.

It is a situation that may not continue long as far as the Dairy Board is concerned. Falling dairy production across the Tasman has already led to discreet sales of New Zealand butter to be repackaged in Australia giving rise to the possibility of the "Australian product" being sold in competition to the board's Anchor brand.

Those sales are supposedly only temporary until the Australians pull back, leaving Anchor to compete in its own right.

The board is one of the few organisations to collect any praise in Hong Kong. Some is undoubtedly due to the long overdue decision to repackage Anchor in whiter paper, making the butter appear paler and less daunting to the Chinese buyer.

Buyers and agents are pleased with the attention the board takes in the market, sending representatives three or four times a year to discuss developments and problems.

And for its troubles, the board is picking up the cream (or, rather, the contract) from Dairy Farm for supplying the solids to make ice-cream for a new chain of ice-cream parlours.

There are other good-news stories, too. New Zealand Insurance and South British have been operating in Hong Kong for many years.

Building partition-makers Cemac are well established, although the firm gets little from New Zealand other than management now. Materials are cheaper and manufacture less expensive without freight problems and costs in Hong Kong.

Feltex has carpeted most of the top hotels in the colony, including the latest and largest about to open.

Marac, after a year's exploratory work in Hong Kong, is boosting its staff from two to eight to cope with the business it has found there.

Others would prefer not to be mentioned.

Hong Kong's trade statistics show creditable performances by berryfruit exporters who claim a fifth of a half million dollar market, sheep, lamb and goat skin exporters who supply a large proportion of the colony's needs, wool scourers who dominate the trade and the kraft paper exporters who are the largest by far though with only 17 per cent of a $30 million market.

The statistics beg other questions. Why has the Apple and Pear Marketing Board only 13.8 per cent of a $27 million apple market? And to what extent do Mosgiel Ltd's woollens have their tiny 4 per cent share of a $67 million woollen yarn market?

Some exporters have obviously worked out how to succeed in Hong Kong's almost unique open market. Others, it seems, have a lot to learn.

It has got to the point where one Hong Kong market researcher asks any prospective New Zealand client one question. "Are you prepared to spend $25,000 to get into this market?" If the answer is no, end of session.

The cost, he says, does not always come to $25,000, but unless a firm is prepared to make that sort of commitment, there is little point in going on.

NBR knows of one major New Zealand firm which was asked by its agent to make that sort of commitment to launch its brands on the Hong Kong market.

Back came the answer: "We are not prepared to spend that sort of money."

Result: sales are sluggish and its brands are easily outsold by a multi-national competitor which is sourcing some of its produce in New Zealand.

Hong Kong

Hong Kong by the bedside as China reawakens

CHINA, the sleeping giant of world trade through nearly 30 years of Maoism, is waking up.

Already its application to join the International Monetary Fund has been accepted and Taiwan expelled with an $80 million sweetener.

And Hong Kong can feel the quickening pulse.

China's exports and imports through the colony rose dramatically last year. Re-exports from China rose by 60 per cent, re-exports to China by 500 per cent, and China's direct imports from Hong Kong by 643 per cent, to US$127 million.

The amounts themselves are not large and may prove to be once-only arrangements. But the indications are that trade will continue to grow.

China is on a three-year crash modernisation programme with the stated aim of doubling steel and coal production by 1985 and aiming for a schedule of 120 major projects.

Its immediate needs are technology and the foreign exchange to pay for it.

Beijing likes paying cash for what it buys, as American plane-maker Boeing knows well. When the Civil Aviation Authority of China took delivery of a new fleet of Boeing 747's, it paid cash without recourse to Exim, the funder of most Boeing purchases including Air New Zealand's.

Development is accelerating with seemingly high growth rates, though these have been dismissed by Chinese leaders as "recoveries", aided by "the 30 points for industry", a Central Committee of the Communist Party's directions for improving management.

Material incentives, regarded as taboo two or three years ago, have been reintroduced and the theme "more work more pay" applied in earnest.

Hong Kong has been very much part of the reawakening. Shum Chun has been declared an export-processing zone and tourist centre just across the border from the colony, and already Hong Kong manufacturers are operating factories in the area.

Most factories are on a joint-venture basis which eventually will pass into complete Chinese control after five or more years.

For manufacturers, China offered a cheap source of labour at a time when wages were rising by 20 per cent in Hong Kong.

It was a simple matter to ship old machinery over the border where the local authorities provided a factory and supervised labour force.

The Hong Kong manufacturers supply all materials and agree to market all the output, though not in China.

Not all manufacturers have found it a mutually happy arrangement, complaining of lower productivity and worker resistance to producing for the capitalist system.

More technical supervision than expected is needed in many instances, to maintain quality controls.

And it is quite likely that if wages tumble in the colony as a result of a world trading downturn, the wily Hong Kong businessmen will have no hesitation in cutting their across-border links.

Initially, most of the ventures were with small enterprises. Now the giants of Hong Kong's trade are becoming more closely involved — though Jardine Matheson & Co Ltd claim trading links with China have never been broken since the old "Hong" was founded in 1832. The firm recently concluded an agreement to build lifts in China, extending the licence it already uses in Hong Kong from the Swiss makers Schindler.

For those businessmen having doubts about the future stability of China, Jardine's are reassuring.

"There is no question that the Chinese leadership is not fully committed to the Four Modernisations programme, and while some of China's industries — such as textiles — can become modernised within a short time the existing management and systems of others are much more outdated and in need of advanced technology from the West," the house magazine *The Thistle* reports.

Modernisation with western co-operation is now certain to move into a higher gear after the recent publication of the Law on Joint ventures by Beijing.

"The very fact that a Joint Venture Law has been promulgated seems to indicate that nationalisation of enterprises set up under joint venture arrangements is unlikely to happen in the present circumstances," *The Thistle* says.

Before the law was promulgated last July, China had no legal framework for overseas companies to work by. The law allows for:

- The incorporation of a joint venture in the Peoples Republic in the form of a limited liability company;
- Foreign investment shall not be less than 25 per cent. While no upper limit has been fixed 70-80 per cent is thought to be the maximum by analysts;
- Either party may contribute cash, capital goods, industrial property rights etc as its share of the investment;
- Every joint venture will have a board of directors with the chairman appointed by the Chinese and one or two vice chairmen by the foreign party. The general manager and the assistant general manager could be appointed by the *foreign* party;
- Income tax to be levied on the gross profit of the venture at rates varying from 17 per cent-45 per cent. Ventures supplying up to date technology may get a two or three year tax holiday;
- Joint ventures may borrow from foreign banks. "The Bank", the Hong Kong and Shanghai Bank, is already supporting and advising joint ventures;
- A joint venture will give the People's Republic *first* priority in its purchases of the required raw and semi-finished *materials*, fuels and auxilliary equipment;
- Profits, wages and salaries of foreign workers may be remitted overseas after the payment of income tax;
- The period of a joint venture may be extended upon expiry by application to the Foreign Investment Commission;
- In the case of heavy losses, a joint venture may be terminated early by mutual agreement;
- Disputes which the board of directors fails to settle *may be* taken to an agreed arbitrator.

With the framework in place, foreign interest is growing as China tries to catch up the last 30 years.

But negotiating is still a difficult process. The Chinese insist on negotiations being conducted in Mandarin, the language of the north and official tongue. Negotiations are involved and take months or sometimes a year or more to come to fruition.

The inauguration of the first joint venture — and one that should have interest to New Zealand, particularly the Dairy Board — within the 1979 framework was not until May.

Beijing Air Catering officially began business on May 3, providing in flight catering services for all airlines serving the Chinese capital.

Management initially will be provided by Dairy Farm, Hong Kong's largest retail and food wholesaler which also operates flight kitchens in Hong Kong, Bangkok, Guam, Brunei and Jakarta.

Modernisation . . . Red China buys technical know-how through the sale of labour and food to Hong Kong's capitalists

Dairy Farm's managing director, expatriate New Zealander Phil Oram, told *NBR* the Chinese venture provided yet another opportunity for New Zealand dairy products, providing it can compete on price with Australia and other suppliers.

But Oram, along with other business leaders, discounts suggestions that China is going to become a booming market overnight or a serious competitor to Hong Kong in the near future.

China's development is seen to be Hong Kong's gain, returning it to its former role of *entrepot* for the mainland, a role that diminished as a result of the Korean War.

Realistically the "hongs" know the colony will only continue to exist while it serves a useful function for the mainland.

At present it is the principal source of foreign exchange — "the large fat hen with a great capacity for laying golden eggs", in the words of one business leader — a laboratory and training ground for the Peoples Republic.

The Bank of China is among the largest banks operating in the colony. Technicians are training at Hong Kong's airport and in other areas either by arrangement with the People's Republic or by applying directly for jobs.

The problems of trying to put pedigree into the copy-cats without a too heavy dose of state intervention

RESTRUCTURING a rigidly controlled economy like New Zealand's is relatively simple. The Government changes the rules.

But where free enterprise is supreme and market forces are the controllers, how does Government bring about the changes it deems desirable for long-term posperity?

That is the problem troubling Hong Kong'a administrators.

Since losing its status as China's *entrepot* in the early 1950s, the colony has developed a formidable manufacturing sector using its only resource, cheap labour.

Mimicry became the colony's hallmark responding to the demands of fashion at low prices. Plastic flowers, wigs, digital watches and electronic toys all bore the tag "Made In Hong Kong" and a reputation for being cheap.

Flexibility has been the key to success. When wigs were fashionable in the late 1960s and early 1970s, Hong Kong manufacturers were quick to supply.

In 1965 there were three factories making wigs, at the height of the boom in 1969, more than 300. But by 1972 there were only 50 in operation.

The copy-cat nature of Hong Kong's industry has been troubling administrators for several years as more and more barriers have been erected by the industrialised nations to keep out the colony's main export earner, textiles.

Textiles and clothing, despite the restrictions, still bring in 43 per cent of export earnings, though quality "ready to wear" fashions now account for an increasing share.

Plastics, electronics and a rapidly growing photographic and scientific instruments sector account for most of Hong Kong's other exports.

Yet most of the work is assembling, at best semi-skilled, jobs that can be done in a growing range of third world nations' at lower wages.

Hong Kong's rising wages and standard of living — now one of the highest in Asia — are making it expensive.

Only extremely high productivity is maintaining competitiveness over rivals such as South Korea, Taiwan and Singapore.

Singapore's Government-controlled economy is already restructuring away from labour-intensive, low-grade assembly work to higher technology industries.

Hong Kong appointed an advisory committee in October 1977 to report on diversification. Its 430-page report delivered to the Governor two years later added little new to a debate which has been aired frequently for 20 years; to what degree should Government be involved in economic planning and the implication of these plans.

In New Zealand and Singapore the question never arises. Few industrialists or manufacturers would dare move without at least unofficial Government blessing.

To Hong Kong manufacturers, Government interference is almost an unknown anathema. The Government normally becomes involved only in matters of worker safety and protection, and even then tends to move only in response to events rather than ahead for prevention.

An outbreak of food poisoning in a works canteen making 400 ill provoked the introduction of regulations applying similar standards to works canteens as restaurants. But the Government has little hope of enforcing the regulations. For 42,000 factories and workplaces, there are fewer than 120 inspectors.

Trade unions, except in a few areas where skills are specialised such as aircraft maintainence and engineering, are equally ineffective.

The Government does little to encourage the development of industry. There are no investment incentives, tax holidays or other allowances, the rationale being that Hong Kong has many inbuilt advantages to a prospective manufacturer.

Company tax rates are 17 per cent after a 25 per cent depreciation allowance on plant and machinery. Income tax is 15 per cent.

Labour, compared with the United States, Japan or Western Europe, is cheap and hard-working and labour overheads are conparatively low.

One concession to diversificati has been made. Desirable industries can apply for special industrial development land sold by the Government at below-market prices.

To qualify firms must be offering a significantly new product to Hong Kong involving a higher degree of technology than is readily available, giving jobs with an added level of skill. Products must be export orientated and with a high added value. Further, the industry must be of a type unsuited to an ordinary multi-storey industrial building.

So far 34 firms have qualified with products ranging from beer plastic injection moulding machines, cans, hand tools, safes frozen foods and silicon chips.

Missions sponsored by Government organisations and the chambers of commerce also go shopping overseas for suitable industries with a certain degree of success.

Strangely, foreign investors directly own only a small proportion of Hong Kong's industry, 435 ventures employing about 10 per cent of the workforce.

American firms dominate with 44 per cent of foreign investment, Japanese contribute 21 per cent and Britain 6.6 per cent to lead the pack of those also present.

The criteria applied by the foreign investment technology transfer seeking missions eliminate many who might be looking for a South-east Asian base.

Land is the first criterion. If an industry does not qualify for a Government site then its requirements ought to be minimal.

Second, it ought to be able to offer skilled jobs which, third, are particularly suited to males. Men already outnumber women and most illegal immigrants are males.

Fourth, industries that are not high consumers of energy or water are preferable.

Officials admit there are few industries that do fit the criteria, and within those groups specific firms that might be interested in moving some part of their operations to Hong Kong can be easily identified. Then it is a matter of stalking the quarry.

The hunt has been divided between the Hong Kong General Chambers of Commerce, the Trade, Industry and Customs Department and the Trade Development Council — a quasi Government body.

The Chambers of Commerce, for instance, concentrate on Japan, the North-eastern United States and Australia.

New Zealand does not figure on anyone's list.

Deterring potential investors is the high price of land and property, Hong Kong's scarcest resource.

Property prices took off in 1979 and Singapore interests have been quick to point out that office rents there are now half those in Hong Kong.

Office space in Hong Kong's central business district can be rented for $40 per square metre a month while shopping areas in Kowloon command US$13 per square metre a month.

Residential rents soared 115 per cent last year. Now firms are paying more to house their expatriate staff than they are in salaries.

In that atmosphere the Government has little hope of doing more than tinkering around the periphery of diversification.

It has already decided to impliment some of the recommendations of the advisory committee with regard to establishing a research and development centre, and the development of a system of Hong Kong standards.

An electrical and electronic calibration laboratory will be set up soon and the Government has accepted, in principle, the need for quality certification, a primary standards laboratory and the supervision of and accreditation of other specialised laboratories.

The advisory committee further recommended a wide range of measures to improve industrial training closely linked with manufacturers' needs. Pure research, academic or industrial, simply doesn't exist at either of the colonies' two universities. The result has been an acute shortage of technicians and technologists.

A few firms, particularly in the electronics industry, are going it alone, determined to break the boom-or-bust mentality that has dominated local industry for so long.

For one firm at least, Timco (HK) Ltd, the expense paid off. It is now one of two manufacturers in the world which produce micro processor-based handheld electronic language translators. Last year it produced 100,000 units.

Even so, those engaged in research and development know they are lagging behind the world leaders. One estimate puts them two years behind Japan in radio technology and five years behind the United States in semi-conductor technology, simply because the colony is not pouring the resources into research and development.

That some firms are bothering is a sign that market forces do have some impact even on more sophisticated industries where it is not so easy to switch in overnight.

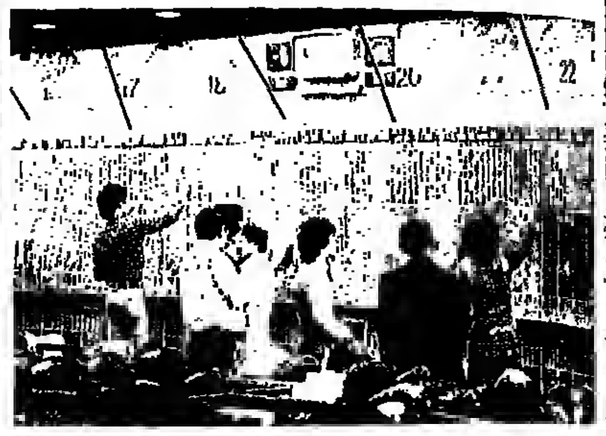
And for that reason the Government is unlikely to move away from the *laissez faire* approach it has maintained for so long.

It would be strange if it did. The Legislative Council is composed of the leading "taipans", the generals of commerce and industry!

	Pop in millions	Per Capita Income US$ (A)	Real growth 1979-78	Inflation 1979 CPI	Tax Holidays (Years)	Corporate Profit Tax 9%	Depreciation Allowances %	Income Tax on $24,000 %
HONG KONG	5.2	3609	11.5	12.4	None	17.0	25	15.00
SINGAPORE	2.3	3314	9.3	5.0*	1-10	40	20	22.60
MALAYSIA	13.3	1154	6.1	5.0*	1-10	40	10-25	25.60
TAIWAN	17.0	1414	8.0	10.0*	4-10	22.25	50	25.10
THAILAND	45.0	482	7.5	10.0*	3-6	39	None	29.60
SOUTH KOREA	37.6	1242	7.1	22.0*	1-5	64.50	40	48.00
JAPAN	115.0	8531	6.0	4.3	None	52-55	—	24.00
PHILIPPINES	46.0	500	5.8	20.0*	1-10	35.42	20-40	46.00
INDONESIA	141.6	337	5.0	20.0*	2-6	20-45	10-25	28.30
AUSTRALIA	14.0	7600	4.7	12.3	None	45-50	20-40	33.20
NEW ZEALAND	3.1	5502	1.0	16.5*	None	45-50	25	42.65

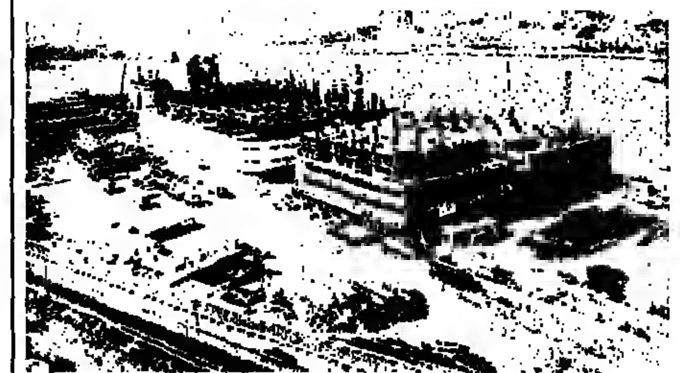
NOT* 1979 Estimate
(A) 1978 figures courtesy *Far Eastern Economic Review Year Book*

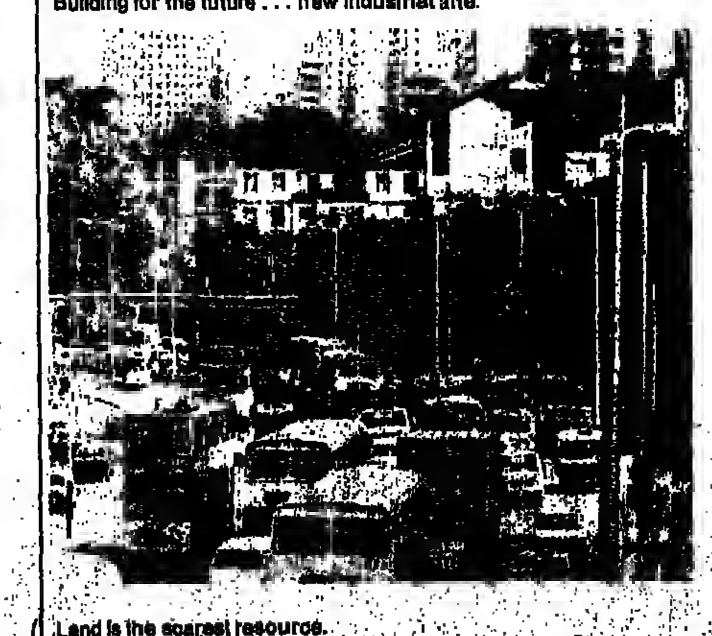

Digital watches . . . Swiss are now behind the time.


The imagination machines . . . the mimics are turning to R&D.


The money machine . . . everyone loves a gamble.


Running to stay in front in Asia.


Building for the future . . . new industrial site.


Land is the scarcest resource.

Face up to it – image is vital to marketing

IN the United States, a popular brand of canned vegetables is a household name, aggressively marketed on price and quality.

Across the Pacific in Hong Kong, the same brand is the prestige product, the most expensive.

The contents of the cans are no different. But the markets are.

To the cent-conscious American, housewife or New Zealand or British consumers, for that matter, there is little difference between one popular brand and the next. But to the Chinese housewife, price is less important than image and prestige.

Face is acquired through conspicuous consumption, and for most exporters the important sector is the expanding middle and upper classes who are rapidly adopting elements of a Western lifestyle.

Price not important . . . but choosing face is.

The possibility of losing face by being obviously wrong, by being unable to provide acceptable answers or to be forced to give way on a point of issue leads to a highly conformative behaviour pattern.

Face is acquired through conspicuous consumption, the possession of goods with a high intrinsic prestige. For Rolls-Royce it is a pleasing concept. There are reputedly more of their luxury limousines in the colony than anywhere else – a claim that has apparent truth to any casual observer.

Newcomers to the Hong Kong market can find "face" a difficult hurdle to cross. Establishing an acceptable image costs money. Local agents are usually prepared to split the cost on a 50/50 basis, but for the new exporter or new product that can mean at least $25,000.

New Zealand firms have been known to baulk at such expense, specially when Hong Kong is only being used to clear surplus product and not as a long-term market.

The result invariably, or so the agents claim, is lower sales. By contrast, marketing consultants claim the American prestige canned vegetables are an unqualified success.

Two factors can achieve face for a new product or brand skillful-image building – and a prosperous well educated 20-35 age group looking increasingly towards Western lifestyle who are prepared to try new products.

Shanties . . . half have colour television.

For potential exporters it would seem to be the target market. As a group, the 20-35-year-olds make up slightly more than a quarter of the population. Nearly half have had secondary education and 12 per cent tertiary education.

And among the higher incomes, the 20-34-year-olds take more than a fair share. Ten per cent are from households with a monthly income over HK$3000 a month (NZ$631) – a category enjoyed by only a quarter of all households. And 2.7 per cent are from households with incomes over $5000 a month (NZ$1053), the dominant group in a category shared by only seven per cent of all households.

In absolute terms, their numbers are not large, but market research tends to show them to be more innovative and receptive to advertising. Shoppers in that category are far more likely to use supermarkets, no doubt an important factor in siting of Dairy Farm's newest and largest supermarket in the heart of the central business district.

Even so, the lack of parking space at shopping centres-land is generally too expensive to be wasted on carparks – makes daily shopping common. More than 70 per cent of housewives shop daily, buying fresh produce from markets predominantly supplied by China.

Food accounts for 45 per cent of average household income. Even high-income families spend 35 per cent of their income on food.

Surprisingly, the lowest-income families can boast a range of consumer goods, mostly well known Japanese brands: Hong Kong's manufacture of similar products are almost entirely for export.

Even the most humble squatter's shack is almost certain to be equipped with a black and white television set (and nearly half have colour), a refrigerator and possibly a washing machine, sewing machine, stereo-blender and – incredibly – a telephone.

Airconditioners, ovens, motor cycles and cars are, however, found mainly only in the higher-income homes.

Of those households with an income of more than NZ$1000 a month, 70 per cent live in their own homes or apartments.

Several top-income housing projects are underway, developing almost unused islands close to the city centre combining a resort atmosphere with the space of open hills, country clubs as well as some shopping facilities.

Otherwise high interest rates and rapidly rising prices are leading to a downturn in demand for private housing specially now the Government has introduced rent restrictions from last December limiting increases to 21 per cent every two years.

Already some property companies have calculated that by terminating the leases of all their tenants at one time, demolishing the building and rebuilding an identical block, rents can be doubled and capital value trebled.

The Government is unlikely to meet its housing targets of 35,000 low-cost units a year over the next few years, ostensibly because to do so would put too much strain on the construction industry, making the economy boil over. Construction workers are already among the highest-paid workers. Some, it is said, earn more than NZ $30 a day.

Major construction work is unlikely to slow down. The Government will be programming major projects throughout the 1980s and beyond, beginning with the extension of the Mass Transit System, the upgrading of the railway to China to twin track and – eventually – full electrification, and possibly a new airport. Other projects under study are a second cross-harbour tunnel or possibly a bridge, as well as the reinstatement of a major motorway project on Hong Kong Island deferred as an anti-inflationary measure last year.

The private sector, which might be asked to build the second harbour tunnel or even be left to develop an airport – one consortium has already proposed, is expected to build at least 5000 new hotel rooms in the next four years as well as keeping up with the demand for office, shopping and factories.

Future prospects encouraged a joint venture for a $200 million cement plant between Cheung Kong Holdings, Kaiser Cement of the United States and the China-controlled Ka Yip Investment.

The demand for land is strong.

In December the Government sold a commercial site for $54.7 million a record $36,900 a square metre for Crown Land. Earlier an industrial site had fetched a record $6153 a square metre in another Crown land auction.

Above all is the glittering prospect that China will forge ahead with its modernisation programme, regardless of the world recession which might slow down Hong Kong's growth.

New hotels, tourist and industrial projects should keep contractors and their suppliers ticking over – once the Chinese have decided what they exactly want.

New Zealand shop – Ballins' bold export venture

CHRISTCHURCH - based soft-drink makers and liquor traders Ballins Industries Ltd are bubbling with enthusiasm for a "New Zealand shop" in Hong Kong.

The project is ambitious even by Hong Kong's standards – a 1400 square metre down-town shop selling the best-quality New Zealand merchandise and built-in wine bar.

Local entrepreneurs are staggered by the proposal, pointing out that the largest supermarket in the colony – reliant mainly on the luxury trade – occupies only 929 square metres.

Ballins is unmoved by the sceptics.

The key to the venture's success is not so much the size of the store, at $145 a square metre, but getting goods, particularly fresh produce, to it.

That problem, the same one that has been dogging exporters to the colony for a long time, will be considered by the Ballins board when it takes its final decision early next month.

Ballins is looking for its first major export venture, and Hong Kong's compactness and rising wealth – specially in the less conservative 20-35 year old age group – is particularly attractive.

A lack of red tape and low tax rates (companies pay 17 per cent, individuals 15 per cent after certain basic allowances) are a pleasant bonus.

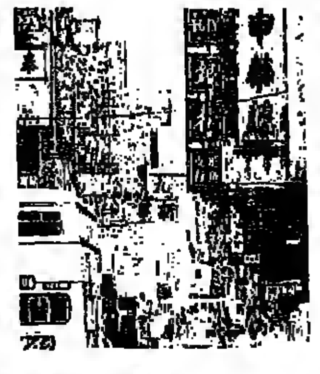
Ballins chief accountant Richard Peate, responsible for much of the preliminary work on the project, says New Zealand exporters are not entirely to blame for a relatively poor national performance in Hong Kong.

"They are dealing through, wholesalers, importers and agents who do not always support and promote their products as well as they might," he said.

Others fail because the orders received are bigger than they can supply.

Ballins plans to set up its own exporting subsidiary in Auckland to buy a wide range of products for the store.

Already three hundred firms have been contacted and 100 have indicated interest by providing samples and other promotional material.



Room for Ballins?

Larger firms have also shown a willingness to supply, but direct to the store so earning their own export incentive. Ballins aim is to concentrate on low volume high quality products – initially, furniture, sheepskins and furs, unashamedly aiming for the top end of the market and the tourist trade.

A site has already been found in Kowloon, Hong Kong's main tourist area and principal shopping district and opening date is provisionally scheduled for July 1981.

The costs of getting established are high, Peate declines to say how much, except that it will be over $1 million.

But the Government's relatively new export market development grant of 40 per cent will help offset the cost.

Ballins is not leaping into untested waters. Peate says extensive market research has been carried out in Hong Kong to identify the target market, products and location.

Will a "New Zealand shop" be a strong enough selling point?

Peate argues it will.

"New Zealand is well known and seen in a good light mainly because Air New Zealand has done its promotion on a quality basis," he said.

"Our image is certainly better than Australia's."

The metro: ahead of schedule and below budget

HONG KONG proudly boasts the latest — and soon to be the busiest — metro system in the world.

When the initial system is completed about the end of 1982, its 26.1 kilometres will carry 1.8 million passengers a day, 300,000 more than London's much larger underground network.

Officially the first 15.6 kilometres opened on February 12, though eight kilometres went into use last October. Although more expensive than bus or ferry, the system was an instant hit with the travelling public.

Now the Mass Transit Corporation — funded by the Government — is being criticised for not building a bigger system.

Getting around Hong Kong is not easy, specially to and from Victoria, the central business district. Travelling 6.5 kilometres can take an hour or more at peak periods.

At the root of the near-impossible congestion is the colony's phenomenal growth, from 800,000 people in 1945 to today's 5.2 million-plus. Forecasts of six million by 1991 are likely to be realised by 1985, if not before.

But the high, densely populated corridors gives hope for the viability of any major transport project.

The Cross Harbour Tunnel, linking Hong Kong Island to Kowloon and costing $70 million, opened in 1972. It has already paid for itself. Last year 32.1 million vehicles passed through, paying $41 million to do so.

Already a second tunnel is being discussed as the first is now operating at capacity.

On a typical day 6.3 million journeys are made on buses, the MTR, ferries and taxis.

Studies for the MTR began in the 1960s with a consultants' report which resulted in a proposal for four lines, three in Kowloon and one on Hong Kong Island, totalling 52.7 kilometres.

In 1974 a short-lived letter of intent was signed with a Japanese consortium for the first 20 kilometres. Within months, the Japanese backed out and the Government sponsored Mass Transit Railway Corporation took over.

Between 1972 and 1975 new roads were built to cater for the disruption of construction and an underground network of pipes and cables diverted.

Years of planning over, the first line took just 4½ years and $1221 million to build, opening ahead of schedule and within budget.

MTR was set up with $242 million by the Government. Export credits contributed $400 million. For the rest, MTR issued bonds and arranged loans in Hong Kong and overseas for repayment between 1980 and 1992.

The Tsuen Wan extension, due for completion towards the end of 1982 at a cost of $863 million, has been financed in a similar way but with more emphasis on borrowing in Hong Kong dollars to minimise exchange rate fluctuations.

And in a land where every square centimetre has a value, the MTR sold off property rights to land above the underground stations or entered into joint ventures with property developers.

On a 10-hectare concrete slab—billed as the largest single supported concrete slab in the world — above the MTR's workshops and marshalling yards will rise 5000 flats housing 25,000, extensive community facilities and office blocks.

As the MTR came into operation, the Government doubled taxi, ferry and bus fares, provoking a public outcry that fares were being forced up to make the system pay.

To cross the harbour by MTR costs 42 cents, by ferry (first class) 10.5 cents and (second class) 6.3 cents.

Not that there is much doubt about the financial viability of MTR. By the time it is complete, carrying 1.8 million passengers a day it can expect to be taking $300 million a year through the fully automatic turnstyles.

Cash flow will be positive by 1984 and all debt repaid by 1992. (It was interesting to note that the automatic ticket barriers installed earlier this year are working trouble-free; in Sydney similar barriers, also recently installed, still need manual supervision to sort out teething troubles.)

Trains will run at two-minute intervals in peak periods, and daily from 6am to 1am, all completely computer-controlled.

When the MTR system is complete, 40 per cent of all homes and 50 per cent of work places will be within 10 minutes walk of a station.

Already the underground-over-ground-underwater network is having a sociological impact. Journey times have been cut (to travel the complete network will take only 45 minutes), a factor that is bound to lead to a rearrangement of property prices and travelling patterns.

Aided by the MTR, there is expected to be a rapid shift in population to the New Territories, with implications for existing shopping centres.

Now the problem facing the Government is what to do next.

The options are the other two lines that the consultants originally recommended, one running along the north shore of Hong Kong island, the other providing a second link from the island through East Kowloon to the airport and out into the New Territories.

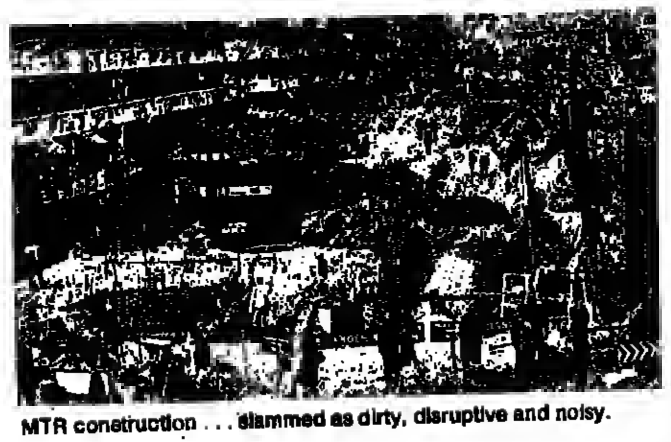
To cut costs, the Island line might initially be an upgraded version of the 74-year-old tram system taken underground through the central business district. The problem is urgent and a decision to go ahead with the full MTR network is expected soon.

Some short-term remedial measures, such as bus lanes, to accommodate the 150-seater buses being introduced later this year are probable.

In two years the Government will be making another big transport decision — the future of Kai Tak airport, now fast approaching saturation point.

For that the planners have come up with an ambitious scheme. A hillside on Lantau Island is to be bulldozed into the sea, providing space for two runways, industrial estate and new town. At present the only access to the island is by ferry, but to overcome that the planners propose to span the gap with a bridge bigger than San Francisco's Golden Gate that will stand up to typhoons which occasionally bombard the South China coast.

In Hong Kong, such a scheme is feasible. From decision day to operation is seven years and if it is like the MTR it will be opened ahead of schedule and under budget.


MTR construction . . . slammed as dirty, disruptive and noisy.


MTR service . . . everyone is rushing to get aboard.


"Of course it's mortgaged up to the hilt"

Tourist authority welcomes big spenders

IF YOU are a big spender, Hong Kong's Tourist Authority wants you to see you soon for a week's stay or so.

The authority unashamedly chases the tourist dollar. And it loves Australians who are topping the big spenders list.

New Zealanders rate much lower in that league, though nearly 10 percent more of them passed through the colony in 1979 than in previous years. In others respects they are the average visitor, staying on average 3.8 nights.

But as a percentage of the colony's 2.2 million visitors, New Zealanders are a miniscule 15 per cent. And they hang onto their dollars, spending only $400 each compared to the big spending Aussies who stay 18 nights and pay $680 in the process, the Japanese, $640, and the Americans who are only just above average at $580.

The tourist authority, not unnaturally, wants visitors to stay longer and see more than just the insides of Hong Kong shops with perhaps a quick trip to the Peak tram to look at the magnificent harbour.

Its marketing strategy is being directed at three groups: the high spending free independent traveller; special interest groups; and conferences.

In particular, the authority is promoting Hong Kong's off season's June-July and December-January to relatively short-haul markets, particularly Japan and Australia and to a lesser extent New Zealand.

More selectively, the authorities promotes special interest tours which range from kung fu to antiques through to a gourmets delight. In the same category are incentive tours — prizes for hard working or outstanding employees who, because the trip is costing them nothing by way of airfares and accommodation, will almost certainly go on a spending spree.

Conferences are also regarded as high yielding and a specialist department was established two years ago to woo conference organisers.

Hong Kong is most popular with Americans, 303,600 visited in 1979, 6.7 per cent up on 1978. The Taiwanese came a poor second 206,000 though with an astounding 60 per cent growth rate. Australians followed in third spot, though that market showed a drop of 13 per cent, then Thais, Britons, Filipinos, Malaysians and Singaporeans.

Australians and Americans are undoubtedly taking advantage of cheap fares negotiated last year, a factor that may be constraining the growth of New Zealand as a tourist destination for Hong Kong residents.

Though fares have changed recently, the peak advance purchase return fare from Hong Kong to Sydney was only HK$3402 last December while Air New Zealand's cheapest return to Auckland was an excursion fare of HK$6155, a difference of approximately NZ$580.

Residents interested in travelling to New Zealand claim an 80-day around the world fare available from Hong Kong is cheaper than flying to Auckland and back. Air New Zealand's "come to the cool beautiful scenic land in the South Pacific" advertisement does arouse interest among higher income travellers, though one survey rated it as a flop amongst the fast growing lower income sector.

Alternatively a Hong Kong couple can enjoy a stay-put holiday in Hawaii or the American West Coast, accommodation included, for the same price as two return excursion fares to Auckland.

Arguments that the airfare would not be high percentage of the cost of a New Zealand holiday are met with the reply "but if I go to Australia I'll have an extra $600 to spend".

As a source of traffic, Hong Kong residents are not exactly queuing to get on Air New Zealand's twice weekly DC10 flights. Last year only 1401 residents left the colony giving New Zealand as their destination, enough to warrant six DC10 flights.

Australia was more popular attracting 14,197 residents in 1979. Air New Zealand's sales figures show that it is doing better than the statistics suggest. In the year to March 31, 1980 it sold 2688 tickets for travel to New Zealand, a 7.6 per cent increase on the previous year.

And the airline is going downmarket after an encouraging initial foray into the tour market, packaging New Zealand holidays for the ethnic Chinese. A change to Boeing 747s in the next two years will require the changed marketing strategy to fill the extra 300 seats available if a twice weekly schedule is maintained.

Primarily Hong Kong is a gateway route for the airline to London and its main purpose is to deliver passengers to other airlines for onward travel and collect homebound Kiwis.

But, with 10 Boeing jumbo jets on order the airline's thoughts are already tuned to extending its own network to London, though flights are considered unlikely to begin for a few years yet. Hong Kong is one possible launching point, though there are the possible alternatives of Tokyo, Los Angeles and Singapore.

Hong Kong does pose bilateral aviation agreement problems, the same ones that encouraged Air New Zealand to open its new service to Tokyo through Fiji rather than the preferred route through Hong Kong.

Britain wants rights for Cathay Pacific, Hong Kong's flag carrier though by ownership a British airline, into Auckland.

Those rights it is willing exchange to give Air New Zealand rights into London. Rights through other transit points would also require concessions to third and even fourth countries.

Cathay Pacific is understood to have temporarily lost interest into flying into Auckland. At present it is negotiating for a fourth weekly jumbo jet service to Australia where it is already picking up an encouraging number of New Zealand businessmen though not much New Zealand originating freight.

Cathay's expectations of beginning services to London this year were shattered by the British Civil Aviation Authority in a surprising decision.

British Caledonian, Britain's major independent airline was awarded the route, the first long-haul route it has been permitted to fly in competition with state-owned British Airways.

A joint service by Cathay and British Caledonian was rejected by the authority which also passed over Sir Freddie Laker's Skytrain proposal.

Cathay was taken aback, though industry sources point out that the airline had taken for granted that it would get the rights and had already ordered Boeing 747s with that expectation.

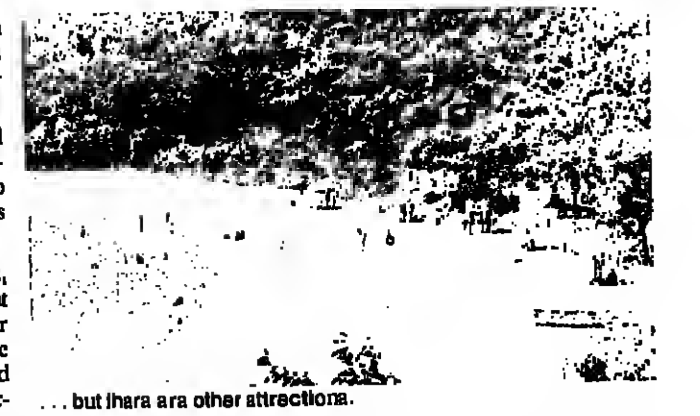
Hotel operators are hoping the rising fuel costs will not curb tourist growth as they prepare to open 4000 rooms in 14 new hotels in the next three years, a 36 per cent increase on existing space.

The bulge comes late this year and early next as 4000 new rooms are provided. However the rooms will ease peak pressure when hotels are invariably over-booked relying on non-appearing guests and last minute cancellations to save face.

It is a gamble that has left a more than a few visitors stranded. But the legal gambling is in Macau, three hours by ferry or less than an hour on jetfoil across the pearl estuary.

And in addition to the casino punters can now put their dollars on New Zealand trotters and pacers. Wrightson NMA won an export order for 250 horses to set up a light harness sport in the old Portuguese trading post.


How most tourists spend their time . . .


. . . but there are other attractions.